

THE CONSTITUTION OF 1920

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the Federal Government, or from individual members of the Government, they would be thereby removed from office.¹ It was not, however, intended that this weapon should be lightly employed against a Government, for it was stipulated that such a resolution would require a quorum of half the members of the National Council. And, if one-fifth of the members so demanded, the vote could be postponed for two days.² The Government, apart from this somewhat meagre stipulation, had no means of protecting itself against an adverse vote by a chance coalition in the National Council, since it could not confront the National Council with the choice between continued support and a dissolution.

As has been pointed out, the National Council had practically complete control over all legislation. It had also considerable executive functions. By Article 50, political and certain other treaties required for their validity the consent of the National Council. By Article 53, it was empowered to set up by resolution Committees of Inquiry,³ before which all public authorities were obliged to give evidence if required. By Article 54 certain executive duties were specifically made over to the National Council, such as the fixing of the prices of such federal services as railways; the fixing of the prices of monopoly goods; and the fixing of the salaries of persons employed by the State. Apart from these specified cases, it was laid down in Article 55 that the National Council should share in the executive power of the State through its Chief Committee, to which reference has already been made. Kelsen has described this body as the most important political organ of the National Council.⁴ Provision had been made for its election in the constitution of 14 March 1919. Its membership had then been fixed at eleven, whereas by the constitution of 1920

¹ It may be noted that, since it was anticipated that the dismissal of an individual minister by a vote of no confidence should not necessarily involve the resignation of the whole ministry, the cabinet system was not adopted.

² Kelsen comments on this: 'Dass die Wirkung des Misstrauensvotums verfassungsgesetzlich ausdrücklich normiert wird, ist eine Besonderheit unserer Verfassung' (op. cit., vol. v, p. 169).

³ Cf. with Article 34 of the German Constitution, according to which such a committee had to be set up if one-fifth of members so demanded.

⁴ *Jahrbuch des öffentlichen Rechts*, vol. xi, p. 246.

VI

THE INFLUENCE OF FOREIGN POLICY ON THE
EVOLUTION OF DEMOCRATIC GOVERNMENT

648 THE difficulties experienced by Austria in the conduct of her foreign relations contributed, indirectly, to the general disillusionment with parliamentary democracy which came to be felt throughout the country. For it was all too obvious that the democratic theory of a policy inspired and controlled by the wishes of the people bore little or no resemblance to the facts of the case. Austria was, in fact, controlled by her creditors, who had over her, literally, the powers of life and death. And, since her foreign relations were matters of great moment to them, they did not hesitate to impose their own views on her Governments. These views were not shared by the great majority of Austrians. Thus it came about that successive cabinets, from 1919 till 1934, were obliged to pursue a foreign policy of which the electorate disapproved. This was the more unfortunate because foreign policy was a question of very great importance for post-war Austria, and the gradual realization that it was a matter over which public opinion could exercise no control did not enhance the value of democracy in the eyes of the Austrians.

The disillusionment began almost immediately after the war, when Austria was frustrated by France and the Allies in her plan for union with Germany.

642 The possibility of an independent existence for Austria had
648 never been seriously envisaged by any section of Austrian opinion after the break-up of the Empire, although certain elements in the Christian Socialist party had viewed the prospect of an *Anschluss* with some misgiving. Almost the first official pronouncement of the new republican Government had been to the effect that German Austria was a part of the German Reich.¹ Representatives from German Austria

¹ Article 2 of the Declaration of 12 November 1918 (B. G. Bl. Nr. 5). It was arranged, however, that Austria should continue, for the time being, to be organized as a separate state.

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attended the deliberations at Weimar on this assumption.¹ 642
Fauer has stated that "our most important aim in the peace 648
negotiations had to be the assertion of our right to unite with
Germany'.

It seems probable that the Social Democrats were right in maintaining that the chief hope of survival for the young and somewhat frail plant of Austrian republicanism lay in the close connection of German Austria with the Reich. The Allies were, however, strongly opposed to any extension of German influence in the Danube basin, and Article 188 of the Treaty of St. Germain forbade an *Anschluss*, either immediately or in the future, without the consent of the League Council.² This article was, not unnaturally, felt to be extremely unjust, and strong protests were made against it, both in Germany and Austria.³

On the other hand, although it is almost certainly true that Austria and Germany would have joined up in the autumn of 1918 had they not been forcibly prevented by the Allies from doing so, it is equally true that public opinion, never unani-

¹ On 6 February 1919, a message of congratulation was sent from the Provisional National Assembly, to the Assembly at Weimar, in which it was stated that the Austrian body '... spricht die Hoffnung u. die Überzeugung aus das ... es der deutschösterreichischen Volksvertretung gelingen wird, das Band, das Gewalt im Jahre 1866 zerrissen hat, wieder zu knüpfen, die Einheit u. Freiheit des deutschen Volkes zu verwirklichen u. Deutschösterreich mit dem deutschen Mutterlande für alle Zeiten zu vereinigen.'

Provision was made in due course by Article 61 of the Weimar Constitution for the early inclusion of Austria in the Reich.

² M. Bené has since stated that he and Masaryk had envisaged until as late as 1917 the incorporation of Austria in Germany. They thought that this solution would constrain the remaining small states of Central Europe to form a close political and economic bloc. These ideas were only abandoned when it was found that they met with opposition from Italy, France, England, and Russia—especially the two former. 'Being completely loyal to our friends in the war ... we accepted their standpoint in this matter, and have remained faithful to it up to now.' (Speech of 21 March 1934, *Czechoslovak Sources and Documents*, p. 29.)

³ 'Die Nationalversammlung erhebt vor aller Welt feierlich ihren Protest dagegen, dass der Friedensvertrag von S. Germain unter dem Vorwande, die Unabhängigkeit Deutschösterreichs zu schützen, dem deutschösterreichischen Volke sein Selbstbestimmungsrecht nimmt, ihm die Erfüllung seines Herzenswunsches, seine wirtschaftliche, kulturelle, u. politische Lebensnotwendigkeit, die Vereinigung mit dem deutschen Mutterlande, verweigert.'

642mous in this matter, became less fervent in its support as the
648months passed. The monarchists and the big Austrian industrialists had never been in favour of an *Anschluss*; and, after the publication of the German Peace Terms on 7 May, the Austrian bourgeoisie shrank from identifying themselves with Germany, especially as France succeeded in creating the impression that Austria would get more favourable peace terms if she abandoned the *Anschluss* policy. It was also felt that if France were presented with a *fait accompli*, she might well incite the Yugoslavs and Czechs to occupy Austrian territory. Germany, for her part, feared the loss of further territory to France and Poland.¹ As time went on, however, these misgivings were forgotten, and only the injustice of the Allies' veto was remembered.

648 Austria's position in the immediate post-war period was not a happy one, for, frustrated in what she now believed to have been her unanimous desire to join Germany, there was no Power, democratic or otherwise, to whom she could turn for assistance. Hungary, denuded of two-thirds of her pre-war territory, was, if anything, in a rather more unsettled condition than Austria. And the two states, never on particularly friendly terms, were now divided by the incipient dispute over the Burgenland.²

There could be no question of the establishment of close relations with Czechoslovakia. It is true that in both countries democratic Governments were in power, and that the relationship between them was ostensibly friendly. But Czechoslovakia was a victor state, who, having recouped herself lavishly at the expense of Austria, was not unnaturally anxious to sever all connections with her late rulers, even though these showed signs of an ideological change of heart. Moreover, disputes over the frontier had not yet died down.

If Austria's relationship with Czechoslovakia was distant, her relationship with Italy was, at this time, one of positive hostility, because of the question of the South Tyrol. In this

¹ Otto Bauer, *The Austrian Revolution*, Parsons (1925), p. 115.

² C. A. Macartney, *Hungary and Her Successors*, Oxford University Press (London, 1937), pp. 41 *et seq.*

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case, as in the case of the veto on the *Anschluss* with Germany,⁶⁴⁸ the Austrians asserted bitterly that the principle of self-determination was only applied when the application was likely to work out in favour of the Allies.

Thus, in 1919, since there appeared to be no other alternative, German Austria had to subscribe to the policy of the Allies, and pose as an independent state. The maintenance of Austrian independence has been the official foreign policy of the country from the moment when Renner succeeded Bauer, the great protagonist of the *Anschluss*, on 28 July 1919.

Desirable though this policy may have been, from the point of view of Europe as a whole, it was an essentially artificial policy. And the fact that it had, for the most part, very little backing from public opinion, weakened considerably the standing in the country of the successive Governments who had to attempt to carry it out.

Opposition to official foreign policy amounted at times to a⁶⁴⁸ declaration of war on the Federal Government, and this at a⁶⁴² time when national unity was a matter of prime importance.¹ These 'unofficial' agitations caused such grave disquiet in Allied, and particularly in French circles, that on 14 April 1920, M. Lefèvre Pontalis handed a Note to the Chancellor, on behalf of his Government, stating that, if the Austrian Government were not in a position to suppress the *Anschluss*

¹ In December 1919, Tyrol and Salzburg respectively petitioned to be allowed to join the Reich. On 31 March 1920 the Tyrol *Landtag* requested the Renner Government to present a petition to the Ambassadors' Conference for the union of Tyrol with Germany, on economic grounds. Renner replied that although he could not refuse to present such a petition, he deplored it. It would not be granted, and it would only have the effect of discrediting Austrian representatives in the eyes of the Allies and thus making negotiations for economic assistance more difficult. Tyrol, however, persisted: and Salzburg followed suit.

The difficulties of Renner's position were increased by the fact that he was not supported by his own party. On 5-7 November 1919, for instance, at the Social Democratic Party Conference, the party announced its continued adherence to a policy of *Anschluss*.

The same difficulties confronted the Christian Socialist Mayr cabinet, which came into office on 3 November 1919. On 3 February, for instance, a deputation from the Provinces demanded the organization of a plebiscite to decide whether or not an *Anschluss* petition should be presented to the League. Arrangements for such a plebiscite were made in Salzburg, on 11 March 1920 for 24 April; and in Steiermark on 7 April for 30 May.

648 agitations, the French Government would withdraw its support
642 from schemes to help Austria. On hearing of this Note, the British and Italian Governments intimated to the Austrian Government that such an action on the part of France would mean the complete collapse of schemes to assist Austria. Thus the French Note really amounted to a command to the democratically elected Government of Austria to override and suppress the wishes of its electorate.¹

In this way, the Austrian people were alienated in sympathy from their elected representatives, at the very time when it was most essential that the new state should be welded into a coherent whole, by leadership from a strong popular Government.

The goal of Austrian 'independence' was, moreover, receding rapidly into the distance. The conditions which it was felt necessary to attach to the granting of the League Loan in 1922 were such as to be scarcely compatible with the existence of Austria as an independent sovereign state at all.² League control was withdrawn in 1926. But it became all too obvious in 1931 that the narrow margin which had till then separated Austria from economic collapse would not suffice to enable her to stand up to the economic blizzard which descended upon Europe and America. And, in 1932, when the Lausanne Loan was granted, even more stringent League control was imposed.

It is true that by 1932 the situation had somewhat changed, for, with the rise of the Nazi movement in Germany, more moderate Austrian opinion came to regard a policy of indepen-

¹ The Note occasioned a stormy scene in the National Council in the course of which Mayr pointed out bluntly that Austria was not in a position to refuse the demands of the Allies: 'Wir werden ohne auswärtige Hilfe vielleicht schon in zwei Monaten nichts mehr zu essen haben.' (*Stenographische Protokolle*, 15 April 1920.)

Finally, the Mayr cabinet resigned on 1 June, on the grounds that the *Anschluss* agitations had made its position impossible.

² She had to agree to submit her finances, and the general economic policy of her Government, to control by a committee of the guarantors of the loan, which was to be represented in Vienna by a Commissioner-General. She had also to agree not to 'endanger' her independence by the granting of a 'special régime' to any one state. (League of Nations, *The Restoration of Austria*, Agreements arranged by the League of Nations and signed at Geneva on 4 October 1922, with the Relevant Documents and Public Statements. C. 716, M. 428, 1922, x, Geneva, 1922.)

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dence with less disfavour. But the fact remains that for fourteen ⁶⁴⁸ years, successive Austrian Governments were compelled to ⁶⁴² attempt to carry out a foreign policy which was directly contrary to the wishes of the great majority of the people by whom they had been elected. In fact, of course, the various Governments had no option in the matter; but an electorate frustrated in its dearest wish does not pause to consider the good reasons which may exist for this frustration, especially when its temper is sharpened by acute economic distress.

There can be little doubt that what the vast majority of the Austrian electorate wanted during these years was an *Anschluss* with Germany, although this desire was not always felt with equal intensity by the different sections of the population.¹

The chief supporters of the *Anschluss* policy of 1919-22 had ⁶⁴² been the separatist peasantry of the Alpine province, who were ⁶⁶⁸ influenced to a large extent by temporary economic considerations. After 1925 the movement derived its strength mainly from the Civil Service, the professional classes, and the industrialists. If less spontaneous, this later movement was very much better organized and, unlike its earlier counterpart, it received positive support from high places in Germany. It was the beginnings of the renaissance of German nationalism.²

¹ In 1923 and 1924, for instance, agitations for an *Anschluss* died down, partly owing to the comparative success of the Reconstruction Scheme in Austria, partly because of the bad conditions then prevailing in Germany. After 1924, however, the agitations increased again, because, with the introduction of the Dawes Plan, conditions improved in Germany, at a time when they were deteriorating steadily in Austria, as a result of the collapse caused by the over-speculation which took place in the summer of 1924.

² *Le Temps*, 17 and 27 May 1925, and the *Deutsche Allgemeine Zeitung*, 26 May 1932.

The new German Nationalist movement may be said to have taken its inception from an unofficial visit paid by Dr. Dinghofer and Dr. Frank, the German Nationalist leaders, to Berlin, towards the end of January 1925. It was then decided to reorganize, on a wider basis, Professor Wettstein's committee, which had been formed in 1919, to work for the removal of the technical difficulties in the way of the *Anschluss*. The new organization, which met for the first time in Vienna on 26 February, designated itself the Austro-German Union, as the Social Democrats' Popular League had become merged in the new organization. Its members were from all parties. Various sub-committees were set up to consider such matters as the unification of teaching in the secondary schools of both countries (higher education

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first anticipated. It was, for instance, difficult to envisage any satisfactory solution for the problem of Austrian provincialism, were Austria to become incorporated in the Reich.¹ And it was found, on closer examination, that Austrian legislation did differ from German in many important respects.² Austrian industrialists were now not slow in pointing out that the structure of German industry was essentially different from that of Austria.³ Finally, the Social Democrats, once the most convinced of all the protagonists of the *Anschluss*, became ever more doubtful of the advisability of this policy, as the strength of the Nazi movement in Germany increased.⁴

The announcement of the Customs Union project by Curtius and Schober in March 1931 came therefore as something like a bombshell. But its reception by the great Powers indirectly knocked the last nail in the coffin of Austrian democracy, for, once the Customs Union had been forbidden, everybody became convinced that this was what they had

¹ Kelsen wrote in 1927: 'Durch die politische u. staatsrechtliche Entwicklung seit dem Umsturz hat sich die Stellung der Länder so gekräftigt, haben sich die durch die Länder-Regierungen repräsentierten politischen Machtzentren in den ehemaligen österreichischen Kronländern so sehr verwurzelt, dass an eine Umwandlung Österreichs in einen Einheitsstaat ernstlich nicht mehr zu denken ist. Ja, man darf sich sogar—so traurig es ist—nicht verhehlen, dass wenn die Umwandlung Österreichs in einen Einheitsstaat... die Aufhebung der Länder also, eine *conditio sine qua non* für den Anschluss diese Bedingung nicht erfüllt werden könnte.' (*Frankfurter Zeitung*, 4 April 1927.)

² The German criminal code, for instance, was very much more severe than the Austrian. And German marriage laws were not easily reconcilable with Roman Catholic opinion in Austria.

³ See *Le Temps*, 16 August 1928, for account of the proceedings at the Conference of Jurists, held at Salzburg in September 1928, to discuss the measures to be taken to unify the laws in both countries, regarding industrial and commercial cartels, etc.

⁴ Article by Bauer, *Der Kampf*, July 1927: 'Es wird nicht das Reich Hindenburgs u. des Bürgerblocks sein, in das wir kommen werden.'

On the other hand, right-wing opinion in Austria was coming to view an *Anschluss* with less misgiving. Dr. Seipel, in particular, made speeches about this time which suggested that he had to some extent changed his views. These occasioned considerable misgiving in France, where he had always been regarded as the great supporter of Austrian independence. In September 1928 France issued a sharp warning: 'Un esprit aussi averti ne peut ignorer qu'en tout état de cause, le rattachement de l'Autriche à l'Allemagne, de quelque manière qu'on veuille poser le problème, ce serait la guerre pour toutes les puissances intéressées au maintien du statu quo en Europe.' (*Le Temps*, 21 September 1928.)

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642 really wanted. And opinion was finally disillusioned as to the
 648 efficacy of a democracy which was unable to give effect to
 what was felt to be the unmistakable wishes of the electorate,
 even when these were legally attainable, as most Austrians
 believed them to be. The fact that France and Czechoslovakia
 clearly meant to oppose the scheme, whether it was found
 to be legal or not; whether Austria and Germany desired it
 or not; and without any consideration for the possible economic
 advantages which might accrue to Austria, who was
 known to be in desperate need, was hardly calculated to
 strengthen the Austrians' not very fervent belief in the wisdom
 of constitutional government, of which Czechoslovakia and
 France were supposed to be among the chief exponents. After
 the failure of the Curtius-Schober project, subsequent efforts
 to bring about the *Anschluss* were diverted into extra-constitutional
 channels.

648 It had been hoped in certain Allied circles after the war
 that it might prove possible to find a solution to the Austrian
 problem in the formation of a democratic federation of
 Danubian states. Such an arrangement, it was felt, would not
 only help Austria but would provide an effective barricade
 against possible German aggression in south-eastern Europe in
 the future.¹ And the economic advantages of maintaining the
 old free-trade area of the Empire as far as possible intact were
 felt to be considerable.²

It was, however, never found possible to realize such a

¹ *War Memoirs of David Lloyd George*, Nicholson and Watson (London, 1936), vol. v, pp. 2463 *et seq.*

"The downfall of Russia had created fresh anxiety for the political future of Europe, and it was feared in many influential quarters that unless some counterweight was established on the Continent to Germany in place of Russia, the future peace of Europe might continue to be precarious. . . . If Austria were prepared to play that role and break with Germany, she would have not only our sympathy, but our active support . . . our object now was to assist Austria to give the greatest freedom and autonomy to her subject nationalities." Mr. Lloyd George envisaged the development of a federation of free peoples in Central Europe, and hoped that in the future other peoples, not at that time a part of the Austro-Hungarian Empire, might be attracted into the orbit of the confederation.

² Article 222 of the Treaty of Versailles had provided for tariff agreements between Austria, Hungary, and Czechoslovakia. But when an attempt was made to realize these in 1921, it came to nothing, because of the opposition of Italy.

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scheme. Germany, for obvious reasons, disliked it. Italy ⁶⁴⁸ always opposed it, in whatever form it was proposed.¹ And the Austrians, though willing, and indeed anxious, to establish friendly relations with their neighbours, and to do as much trade as possible with them, could never consent to become an organic part of an organization of states potentially hostile to Germany. And apart from racial considerations, the intellectual and cultural life of Austria necessarily inclined her towards co-operation with the Western Powers.

The main obstacle to Danubian confederation, however, came from the states of the Little Entente themselves. For many months after the Armistice sporadic fighting had continued round the frontiers of Austria and Hungary, thus preventing any possibility of close co-operation. Even after this came to an end, it was inevitable that the Succession States would feel the need of time to consolidate their new territories, and that the last thing they would want, while doing this, would be to join forces again with their old rulers. It was this fear of an eventual resuscitation of Austria-Hungary which strengthened the bonds between Czechoslovakia, Roumania, and Yugoslavia. And the organization of the Little Entente, instead of becoming looser with the passage of time, as might have been expected, became progressively stronger. Even in 1932, for instance, when Austria and Hungary were both, economically, at their last gasp, this fear remained, and was instrumental in causing the failure of the Tardieu Plan.²

At the same time, it was realized, particularly in Czechoslovakia, that Austria must not be allowed to drift, in desperate defiance of the Treaties, into an *Anschluss* with Germany. Sufficient concessions must be made to make possible her continued existence as a weak but independent state.³

¹ Italy always viewed with misgiving any signs of an incipient *rapprochement* between Austria and the Little Entente, fearing the resuscitation of her old foe, the Empire, in new forms.

² See also speech of Beneš at the Bucharest Conference of the Little Entente, May 1925.

³ Hence, the signing of the Treaty of Lana between Austria and Czechoslovakia in 1921. The economic position of Austria continued, however, to be unsatisfactory; and the Layton Rist report, published in 1926, stated that this condition of affairs was largely a consequence of the policy of economic nationalism pursued by the Succession States.

648 The Tardieu scheme was launched in order to try to escape from the obviously unsatisfactory and unstable existing state of affairs. The time appeared to be auspicious, for the *Anschluss* scheme had failed; and both Austria and her neighbours were in a very bad way economically.¹ Moreover, Austria had recently, of necessity, become peculiarly susceptible to French influence.² France had an obvious responsibility towards Austria, for she had taken the lead in opposition to the *Anschluss* scheme; and she had admitted, in her Constructive Memorandum of the spring of 1931 that the Powers must make themselves responsible for the future well-being of Austria.³

M. Tardieu's scheme⁴ was not, however, well received by any of the interested parties.

In Austria, the fact that the scheme did not embrace Germany undoubtedly made it more palatable to many of the right-wing groups, who hoped that with a little luck Danubian Confederation might become synonymous with Habsburg

¹ The initiative came from the Austrian side. On 15 February 1932 Buresch solemnly declared to the assembled ambassadors of Great Britain, France, and Italy that Austria could not continue any longer under present conditions, as it was becoming increasingly difficult to trade with neighbouring states. Austria would, *he said*, be willing to enter into close economic negotiations with any and every state who would be willing to do so. (*Neue Freie Presse*, 16 February 1932.)

² Schober had been dropped in the January reshuffle of the Buresch cabinet; and the new Government was supported by all the groups who had come to regard the idea of an *Anschluss* with disfavour.

³ 'The French Government considers that in view of the difficult position of Austria it is the duty of the Powers to which that country has given an undertaking not to alienate its independence, to contribute to its material development, on the understanding that Austria on her side will do all in her power to improve her economic situation.' (League of Nations VII, C. 338, M. 151, 1931 (C.E.U.E., 1933).)

⁴ The scheme, as communicated in a Memorandum to the Governments of Great Britain and Italy on 2 March, took as its starting-point the official report of the 44th session of the Financial Committee of the League, which had drawn special attention to the critical position in Austria and Hungary. It comprised proposals that Austria, Hungary, and the Little Entente should arrange a preference scheme among themselves, and should form, as it were, a united bloc *vis-à-vis* the outside world. The great Powers were to allow the entry of Danubian agricultural products at preferential rates, without demanding any *quid pro quo*. (*L'Europe Nouvelle*, 2 April 1932, p. 445.)

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Restoration.¹ The Social Democrats also, frustrated in their efforts to achieve the *Anschluss*, were comparatively well-disposed towards Tardieu's plan. There could, indeed, have been many worse solutions from the socialist point of view.²

At the same time, Austrian opinion as a whole cannot be described as enthusiastic, for it was all too obvious that the scheme had been conceived as an alternative to the *Anschluss*.

The economic advantages which would accrue to Austria were not too clear. It was feared, not without justification, that the struggling peasants of the Alpine Provinces would be unable to compete with the produce of the fertile Danubian states. And Austrian industrialists viewed with misgiving the prospect of Czech competition.

The attitude of the other proposed participants was not favourable. It was feared in the agricultural states (Hungary, Roumania, and Yugoslavia) that Austria and Czechoslovakia would not be able to absorb anything like all their surplus agricultural products.³ And these three states maintained that in no circumstances could they give up extra-Danubian markets.

It is doubtful whether the scheme would have been of great value from the economic standpoint. The analogy of pre-war days was inapplicable, for, in the area which it was now

¹ The position of the *Heimwehr* and clerical groups was, however, difficult when it became apparent that the plan would not have the support of Italy, for these groups were probably, by this time, to a large extent dependent on Italian support.

² The *Prager Presse* of 23 September 1932, quoted at length from a recent article in *Der Kampf*, by Paul Szende, as follows: 'Es ist ein Irrtum, wenn man dieses Problem so darstellt, als ob Österreich die Wahl zwischen Anschluss u. Donauföderation habe. Diese Wahl besteht zur Zeit überhaupt nicht. Es gibt vorläufig nur zwei Möglichkeiten: Donauföderation in einer Gestalt, bei welcher der französische Einfluss dominiert, oder Zusammenschluss einiger Staaten unter der militärischen Oberherrschaft des fascistischen Italien. Mit anderen Worten, die Wahl steht zwischen grosser oder kleiner Donauföderation frei.'

It was further pointed out that whereas the Small Plan would almost certainly lead to a return of the Habsburgs the Big Plan would not necessarily do so.

³ Schöber estimated that between one-sixth and one-seventh of the Danubian surplus might be absorbed, but that this would mean the ruin of Austrian and Czech agriculturists. (He was, however, including Bulgaria in this computation.) (*Frankfurter Zeitung*, 3 February 1932.)

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648 proposed to amalgamate, agriculture formed a much larger proportion of the total economy than in the roughly corresponding pre-war area, in spite of the development of industry in the Succession States. Bessarabia and Serbia, wholly agricultural districts, were now included in the new area; and agriculture had been sedulously, and to a large extent successfully, fostered in Austrian and Czechoslovak districts where it had been of little or no importance before the war.

Moreover, the whole scheme looked rather like an attempt to set the clock back, for, from the League documents published about this time on economic conditions in central Europe, it was clear that all the six Danubian states had, of recent years, had more trade with the western countries and less with each other.¹ And it was a dubious undertaking, from the economic point of view, to try to exclude Italy and Germany from Danubian markets, whatever might have been said for the attempt on political grounds.²

Thus the third possible 'democratic' solution for Austria proved to be unrealizable, on political, economic, and cultural grounds.

In fact the only foreign policy which appeared to be at all feasible by 1933 was one which was decidedly anti-democratic in its implications, namely an Italian policy.³

¹ In 1928, for instance, 35.5 per cent. of Danubian exports were within the Danubian group. By 1931, this proportion had dropped to 25.5 per cent.

² As regards Austria, for instance, while Hungary and the Little Entente took 29.5 per cent. of her exports, Germany and Italy took as much as 24.4 per cent. And as regards imports, the four Danubian states sent 36 per cent., while Germany and Italy sent 26.3 per cent. In each of the other Danubian states the position was essentially the same. (See *League Documents, Economic and Financial*, 1932, E. 781—'Études relatives au problème des rapprochements économiques. Chiffres essentiels du commerce extérieur des pays danubiens.') The group did not, indeed, form at all a satisfactory economic unit. Apart from the fact that Austria and Czechoslovakia could not absorb anything like all the surplus agricultural produce of the other three, their own industrial products tended to be of a kind that could only find a market in relatively highly developed countries. (This was especially the case with Austrian semi-luxury goods.)

³ Italy's plans for Austria were, however, never very clearly defined, and probably varied considerably from time to time. Similarly, the groups susceptible to Italian influence, in Austria, all tended to have plans of their own.

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From the first days of the Republic there had existed right-wing groups in Austria who were not reconciled to the new democratic régime,¹ and with these the Italian Government, dissatisfied with the attitude of the Allies, established connections, without, at first, any success.² In 1922, however, an opportunity arose, when Seipel, in desperation, visited the various capitals of Europe seeking for economic help, having warned the Powers, at the London Conference, that unless they were prepared to come to Austria's assistance, they must take over her administration themselves. When he met the Italian Foreign Minister, Schantzer, at Verona, on 24 October 1922, it was proposed that a customs union should be formed between the two countries; and that Italy should take over the control of Austrian finances. The union was evidently intended to be relatively far-reaching. It is not, however, clear from which side the initiative came. Schantzer in any case hesitated, and the League stepped into the breach.³

During the next few years, the possibility of any kind of Italian solution receded as the relationship between the two

¹ These groups were recruited, in the main, from the ranks of the old Imperial Army, the Church, and the aristocracy.

² In the years immediately following the Armistice, for instance, she probably lent her support to the somewhat nebulous schemes then afoot for the formation of a south-German Catholic state under one of the Wittelsbachs. This state was to include Bavaria, Austria, Hungary, and possibly Croatia. The plan was apparently sponsored by Austrian clerical circles, certain French circles, and by the Vatican. The scheme, however, came to nothing. (C. A. Macartney, 'The Armed Formations of Austria', *Journal of the Institute of International Affairs*, vol. viii (1929), pp. 167 *et seq.*)

³ The question arose again, at the time when the Austro-German Customs Union proposal was being considered by the International Court. Herr Kaufmann, the Austrian representative, then distinguished between 'associations douanières' and 'inclusions douanières'. The proposal of 1922 was, he said, an example of the latter: 'Il n'y a pas de doute quant du point de savoir que ce projet aurait compromis l'indépendance de l'Autriche au sens de l'article 88 de S. Germain.' The initiative had, he indicated, come from Italy. The Italian representative, M. Pilotti, denied this, however: 'Le gouvernement autrichien . . . a envoyé ses représentants en Italie pour proposer au gouvernement italien de prendre à sa charge la monnaie autrichienne, et de faire une Union douanière aussi complète que possible. Cette proposition n'a pas été acceptée par le gouvernement italien; on a estimé que la charge aurait été lourde pour les finances italiennes de cette époque.' (*Cour Permanente de Justice Internationale Série C*, No. 53, pp. 525 *et seq.* Also Murid Curry, *Italian Foreign Policy* (Nicholson and Watson, 1932), p. 73.)

648 countries degenerated into one of positive hostility over the question of the South Tyrol.¹ And it was long remembered against Italy that she had supported Hungary's claim to a plebiscite in Odenburg in 1921.

But although the greater part of the population continued, as in pre-war days, to dislike and despise the Italians, Italy found plenty of opportunity for mischief-making. The *Heimwehr*, for instance, originally founded to keep the peace and defend the frontiers in Carinthia and Styria, shared from the beginning the Italian dislike of Yugoslavia. And with the advent of Mussolini in Italy, and the growth of reactionary forces within the *Heimwehr*, the link with Italy became stronger. As early as 1927, for instance, it was rumoured that the more extreme of the parties of the right, whose dislike of the Social Democrats predominated over their concern at the plight of the South Tyrol, were willing to play Italy's game in return for material support for the *Heimwehr*.²

If it is uncertain to what extent Seipel's Government felt positive sympathy for Italy, it is certainly true that Austria was not in a position to ignore her, for, in conjunction with her enthusiastic ally, Hungary, she was in a position to exert a very formidable pressure on Austria. This was shown very clearly at the time of the riots of July 1927. Italian support of Hungarian revisionist aspirations, which were at that time concentrated on the *Burgenland*, was well known. And Hun-

¹ The German minority in the South Tyrol had, since 1923, been subjected to systematic Italianization. This had been the subject of much indignant comment in Germany and Austria. Vigorous protest from the Bavarian Premier, Dr. Held, in 1926, elicited an extremely belligerent speech from Mussolini, in which he remarked that in no circumstances would Italy withdraw her flag from the Brenner. She might even, if need be, carry it further.

² *Manchester Guardian*, 5 November 1927, quoting from *Vorwärts*, the *Deutschen Volkswirt*, and the *Münchener Neueste Nachrichten*.

On 5 November the *Frankfurter Zeitung* drew attention in a long article to widespread rumours to the effect that the *Heimwehr* was being financed with Italian gold, and provided with Italian weapons. The Styrian *Landeshauptmann*, Rintelen, it was pointed out, had entertained the closest political and financial relations with Italy since he had given over the Styrian Water Power Company to Italian capital. Italy, it was suggested, would like to be able to control Styria because it would enable her more effectively to encircle Yugoslavia.

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gary would have required little encouragement to step in and take what she claimed was her own.¹ This state of affairs persisted through 1928. Relations with Italy continued, in spite of the danger, or perhaps because of it, to be uncertain.² But, as the right became progressively stronger in Austria, the anti-Italian tide began to turn.³ 648●

It was not, however, until 1930 that Schober finally established the relationship of the two countries on a positively friendly basis, by his visit to Rome in the February of that year.⁴ The *rapprochement* was inevitably something of a Canossa for Austria,⁵ and it speaks well for Schober's statesmanship that the visit did not arouse a great deal more opposition in Austria than was actually the case. It is probable that Schober himself did not intend the Italian visit to inaugurate the beginning of a new trend in Austrian foreign policy.⁶ The French, however, and the Italians themselves, did not hesitate to assert that it did.⁷

The influence of Italy in Austrian politics had certainly

¹ Hungary's relations with her other neighbours had been rather more friendly in 1925 and 1926. The possibilities of opposition to a forward policy in the *Burgenland* had therefore decreased.

² The position of the South Tyrol, for instance, was discussed with great bitterness in the National Council in February.

³ At the beginning of July 1928, for instance, Seipel made overtures to Italy by admitting that the point at issue in the Alto Adige was simply a cultural one. The Italian minister, absent since February, returned forthwith to Vienna.

⁴ Schober went primarily in order to thank Italy for her recent support at the Hague, but also to conclude a Treaty of Friendship and Arbitration.

⁵ Schober had, for instance, to walk in the funeral procession of one M. Bianchi, a well-known Austrian irredentist of pre-war days. (*Kölnische Zeitung*, 11 February 1930.)

⁶ In his speech in the National Council, Schober remarked that 'der Vertrag mit dem Königreich Italien ist in seiner Tendenz die gradlinige Fortführung der Politik Österreichs, mit allen Staaten in friedliche Beziehungen zu leben.' (*Reichspost*, 26 February 1930.)

⁷ '... L'Autriche est considérée comme un anneau' (between Italy and Hungary) 'qui pourrait rendre du précieux services au nouveau système italien d'alliances et d'amitiés.' (*Le Temps*, 8 February 1930.) 'Le gouvernement fasciste paraît, en tout cas, faire un nouvel effort pour organiser sur le Danube un groupe capable de contre-balancer l'influence de la Petite-Entente, et de créer au centre de l'Europe, une situation politique correspondant aux idées et à l'intérêt italiens.' (*Le Temps*, 8 February 1930: also *Pester Lloyd*, 26 February 1930.)

248 increased considerably by 1930. This was in part a consequence of the fact that, for reasons of internal politics, the balance of power in Austria had passed to the right-wing groups, who had natural affinities with both the civil and the ecclesiastical powers in Italy. There can be little doubt that the fact that Italy was ready to back these materially as well as morally gave them eventually an advantage over the left and the centre which they might never otherwise have acquired.¹

The pattern of Austrian foreign policy, long veiled in obscurity, was now becoming clear. The 1931 Customs Union proposals had showed that the great body of democratic and moderate feeling in the country still looked for salvation in union with the Reich. The Social Democrats were certainly becoming more doubtful of the advisability of an *Anschluss* in the immediate future, in view of events in Germany. But their lack of enthusiasm was made up for by the fervour of the Nazi group, which was growing rapidly.²

The right-wing clerical group, whose interests were more or less identical with those of a large section of the *Heimwehr*,³ would probably have had little chance of maturing their plans, even after the failure of the 1931 Customs Union project, had it not been for the support which they received from Italy and

¹ The author of *Alarmruf aus Österreich*, a well-informed pamphlet which appeared in 1931, and emanated, apparently, from someone in close proximity to Schober, considered that Austrian reactionary groups would probably be of negligible importance were they not supported from outside the country.

² It would be easy to expatiate at length on the unsuitability of the Nazi ideology for Austria. But the movement had, none the less, much to recommend it in Austrian eyes. It was anti-democratic, at a time when disillusionment with democracy was widespread; it was anti-clerical, a factor of great importance in Austria where anti-clericalism is much more widely spread than is commonly supposed; and it was pro-German. It was thus, superficially at any rate, admirably suited in many respects as a creed for the impoverished, free-thinking middle class. And it recruited its hangers-on for the purposes of demonstrations, fights, etc., from the army of the down-and-outs, who were ready to work and fight for anyone who paid them, and to believe in any party which worked against the existing régime, and held out sufficiently alluring promises of future wealth.

³ A considerable part of the *Heimwehr*, notably in Styria, were Nazi in sympathy.

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the Vatican. The aristocracy and the army, from whom these groups were mainly recruited, had never had deep roots in Austria; they had lived, both before and after the war, in a closed circle, as a class apart from the people. On the other hand, the return of the Habsburgs to Austria and Hungary, which was the more or less constant aim of these groups, was a policy eminently acceptable to Italy (though the Right-wing parties no doubt anticipated being in a position to dispense with Italian 'advice', once they were established). And Great Britain, irritated by the insistent demands of nervous French imperialists, would probably have been glad enough if Italy could have taken the place of France in building up a strong bloc in south-eastern Europe, which would in its nature constitute a permanent check on German ambitions. Even France, too much embroiled in her own difficulties to be able to finance much longer the costly experiment of Austrian 'independence', was able to view Italian schemes without undue alarm. And some circles in Czechoslovakia, the senior partner in the Little Entente, were coming to believe that Italian influence, even if this meant a return of the Habsburgs, was a lesser evil than the *Anschluss*. 648•

Italian schemes at first took the form of the encouragement of a *rapprochement* between Austria and Hungary. In July 1930 Schober made a journey to Budapest. The two countries exchanged mutual compliments; and the tension that had existed between them before and after the war was conveniently forgotten.¹ Too much significance should not, however, be attached to this visit.

There appears, however, to be reason for believing that the relationship between the two countries became very much closer during the short period of office of the Seipel-Vaugoin minority Government in the autumn, and it was widely be-

¹ Report of Count Bethlen's speech, at a dinner given in Schober's honour when he visited Budapest: 'Viele Jahrhunderte gemeinsamer Friedensarbeit . . . unzählige gemeinsame Kämpfe, gemeinsam vergossenes Blut, ebenso wie die letzten zehn Jahre gemeinsam erduldeten Leiden . . . sind ein festes Band, das uns mit unserem österreichischen Nachbar in warmer Freundschaft verbindet.' (*Neues Wiener Tageblatt*, 8 July 1930.)

648 believed that the question of a military alliance at least was then discussed, although this was officially denied.¹

In March and April interest in the Hungarian question was overshadowed by the German Customs Union proposals. It was revived, however, at the beginning of May, by an unofficially inspired article which appeared in the *Tribuna*, in which Italy gave it to be understood that she considered that Austria's true mission was to remain as a Danubian state, closely linked with Hungary.²

The Hungarian project probably came to be viewed with increasing favour in the course of the summer in certain Austrian circles,³ as it was becoming ever more apparent that the Customs Union would not be realized. And French and

¹ The *Frankfurter Zeitung* of 1 February 1931 quoted an article from the *Österreichische Volkswirt* as follows: 'Vor dem Wechsel auf dem Ballhausplatz, hätte Bethlen mit gutem Grunde auf einen Wortlaut rechnen können, der über den üblichen Freundschaftsvertrag hinausgegangen wäre. Auch das wäre natürlich ein rein defensiver Vertrag gewesen, aber doch immerhin, ein Vertrag auf mehr als bloss formalen Inhalt.' The *Frankfurter Zeitung* commented on this as follows: 'Dass die Politik Seipels in dieser Richtung gelassen ist, u. dass die reaktionären Kreise . . . nichts lieber sehen würden als einen Anschluss Österreichs an das halbdiktatorisch regierte Ungarn u. seine Gruppe, besteht kein Zweifel.'

² The article was quoted in *Le Temps* of 4 May 1931 as follows: 'La mission historique, économique et politique de l'Autriche est du reste en fonction danubienne. C'est pourquoi c'est seulement avec une autre pays typiquement danubienne, la Hongrie, que l'Autriche peut améliorer sa structure économique, renforcer son entité politique, et acquérir de l'autorité en Europe . . . l'Italie trouverait dans ce nouvel équilibre de l'Europe centrale et balkanique un précieux facteur, pour le développement de sa politique de paix et d'expansion, et la France un moyen efficace pour éviter l'Anschluss.'

³ The *Weltblatt*, for instance, representing the views of Herr Kunschak and the more liberal wing of the Christian Socialist party, remarked that 'la nécessité s'impose à l'Autriche de se préparer, ou tout au moins de ne pas s'opposer, à son union qui est très prochain, avec la Hongrie. Lorsque l'évolution, qui est imminente, arrivera à son terme, les deux peuples seront peut-être accessibles à l'idée d'une restauration de la Monarchie.' (Quoted in *Le Temps*, 26 October 1931.)

On 22 November 1931 the project was discussed at a meeting of the *Wiener Industriellenklub*, at which leading business men from both countries were present. (*Pester Lloyd*, 22 November 1931.)

The matter was broached in Parliament about this time, in connection with the negotiations which had taken place between Dr. Dollfuss, Minister of Agriculture, and M. Hantos, the Hungarian Minister of Trade. The project was opposed by the National Economic Bloc. (*Neue Freie Presse*, 24 November 1931.)

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Czech opinion was coming to feel that even the Habsburg solution would be preferable to that of an *Anschluss* between Austria and Germany.¹

Italy, however, always uncertain as to her best line of attack, showed some hesitation when the question of Danubian Federation came up in 1932. It was not until the time of the London Conference that she decided definitely to oppose this plan.

The moment appeared an opportune one for the Italian scheme, for those of the *Heimwehr* who had not openly or secretly gone over to the Nazis now appeared to rally round the Legitimist cause.² Italy now openly supported the *Heimwehr*.³ The Church also came out openly in favour of it, and it became quite usual for *Heimwehr* meetings to begin with an open-air Mass.⁴

Negotiations with Hungary were not, however, found to be very easy. And even the attempt to negotiate a new commercial treaty in the summer of 1932 occasioned much difficulty and ill-feeling.

At the end of 1932 the old project of the formation of a

¹ Article in *Frankfurter Zeitung*, 29 August 1931: 'Man glaubt, dass den Franzosen, aber auch den Italienern, ein Zusammenschluss mit Ungarn unter einem Habsburger als ein kleineres Übel als der Anschluss Österreichs an Deutschland erscheinen werde. Auch die Kleine Entente ist in der ablehnenden Haltung gegenüber Habsburg . . . nicht mehr so einig wie früher.'

² Article by Léon Blum in *Populaire*, 3 November 1932: 'La Heimwehr d'Autriche, en partie Hitlerienne, reste en grande majorité habsbourgeoise. Elle entretient les plus étroites relations avec le gouvernement fasciste de Hongrie, avec les Casques d'Acier, avec Mussolini. Le Ministre d'Italie n'a pas craint de figurer publiquement à la dernière manifestation des Heimwehren.' Léon Blum pointed out that these people were gradually getting into government circles, and that Major Fey, for instance, belonged to them.

³ On 15 and 16 October, for instance, when a conference of *Heimwehr* leaders was held in Vienna, at which 1,000 *Heimwehr* men appeared, the Italian minister was present. (*Le Temps*, 17 October 1932.)

⁴ *Alarmruf aus Österreich*, 1931: 'Dass Fascismus u. Vatikan in Ungarn u. Österreich gemeinsam marschieren, ist allein aus dem Wohlwollen der österreichischen Kirchenfürsten für die von Mussolini begünstigten Heimwehren erwiesen. Der österreichische u. ungarische Legitimismus wird nahezu von allen Kardinälen, Bischöfen, Prälaten u. Aebten dieser beider Länder ganz offen begünstigt. Das wäre ohne Zustimmung des Oberherrn in Rom nicht möglich.'

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• 648 South German Catholic state which was to include Austria, Hungary, and Bavaria was revived unofficially. It is, however, doubtful if the scheme ever approached actuality, although Dr. Dollfuss was said to be interested in it.¹

In conclusion, it may be said that in the early post-war years, when both Austria's friends and her principal creditors were democratic states, the signs of reaction in Austria were relatively few. But the movement of Germany towards the right, round about 1928, inevitably led to a similar movement in Austria; and at the same time France, and, to a lesser extent, the satellite Little Entente states, timorous before the increasing power of Germany, came to view with ever less aversion a solution of the Austrian problem on the lines envisaged by the right-wing Austrian groups. A development of this kind was by no means wholly to their liking, but it at least precluded, so they thought, the menace of the *Anschluss*.

Thus Austria's democratic friends came to view with comparative equanimity the increasingly large part played by Italy in Austrian affairs from 1930 onwards. Italy, it was thought, could be trusted to play for all time an anti-German game. This she undoubtedly did, as long as she was able. But the price which had to be paid was the sacrifice of democratic government.

It was, from the first, all too obvious that Austria was considered by the great Powers as a pawn in the game of international politics, and that the right of self-determination would never be accorded her. It was, therefore, not unnatural that, as the years went on, the country ceased to desire the maintenance of a sham 'independence'.

¹ Meetings were held on 11 November and 12 November 1932 in Salzburg, at which both Dr. Dollfuss and Dr. Held, the Bavarian Premier, were present. And the *Heimwehr* and the Bavarian *Casques d'Acier* held joint manoeuvres at Salzach, at the beginning of December.

² The crushing of the Social Democrats, in February 1934, for instance, was probably a direct result of Italian intervention.

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I

The Austrian Problem

THE popular conception of a Europe divided by the Iron Curtain makes no allowance for the position of Austria. On one side of the curtain are East Germany and the Soviet satellite States, with Berlin heroically maintaining its insularity and faith in the future. On the other side are the West European countries, including Yugoslavia, with Albania as a queer but harmless anomaly left isolated on the Adriatic by Tito's quarrel with Russia. Austria under Four-Power occupation, yet with a Federal Government of its own, does not fit into this over-simplified pattern. The Russian zone of Austria is not behind the Iron Curtain in the same sense as East Germany, but it cannot be included in Western Europe. 648 •

This aspect of the Austrian question is bound up with the conflict between Russia and the West. It is a post-War development and will become clear as the story of post-War Austria is told. The main problem presented by Austria in 1945 is more fundamental and can be understood only in the light of the country's history between the two World Wars.

When the Habsburg Empire disintegrated in the autumn of 1918, the bulk of its territory and population was taken over by the so-called Succession States. All that were left to form the new Austrian Republic were about seven million German-speaking Austrians and a group of provinces extending from Hungary to Switzerland without national or administrative cohesion. For some months it was doubtful if an Austria would survive at all. From the economic and political points of view there were strong reasons why it should not. 728 642

Economically the new State was an irrational fragment which would have the greatest difficulty in paying its way. In area it was little more than an eighth the size of the old Empire. 433

433 and in population less than a seventh. Yet it contained Vienna, with over two million inhabitants, a great Imperial city that had lost its *raison d'être*. The capital's top-heavy administrative system and large governing class were a burden to the young Republic. The country had lost to the Succession States its main sources of food supply and the coal vital to its industries. Four-fifths of its wheat and between two-thirds and three-quarters of its coal had to be imported. It was not surprising that in 1922 Austria had to appeal for financial aid from abroad and to accept the supervision of a League of Nations Commissioner.

648 Politically the seven million German-speaking Austrians did not want to form an independent State. The Austro-Hungarian Empire had collapsed owing to the desire of its various peoples for self-government. In 1918 the idea of self-determination was in the air, and it was natural that the German-Austrians, who owed to it the loss of their dominant position in the Habsburg Empire, should wish to make the best of the situation by applying the principle to themselves. In Germany the military Imperialists had fallen from power. The great majority of Austrians, therefore, who disliked Prussian arrogance but felt themselves to be Germans, were in favour of an *Anschluss*, or union with Germany, whether they belonged to the Right Wing or to the Left. Even Dr. Karl Renner, the first Chancellor of the Austrian Republic, who, as a Socialist, had advocated a free federation of Danubian peoples under the Habsburgs, was converted to the *Anschluss* idea by the force of events.

The first name given to the remnant of the Habsburg Empire was not 'Austria' but 'German-Austria'. A Provisional National Assembly, which met in Vienna during November 1918, approved a constitutional law stating that German-Austria was 'an essential part of the German Republic'. This decision was confirmed by a Constituent National Assembly the following March. Otto Bauer, who was in charge of foreign affairs, drew up a treaty with the German Foreign Minister, laying down the manner in which German-Austria

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should be incorporated in the German Republic, in the event of the peace treaty permitting such a development. The Provincial Assemblies of Salzburg and the Tyrol decided to hold plebiscites on the subject, both of which resulted in overwhelming majorities in favour of union with Germany. In the Tyrol 144,342 votes were cast for the *Anschluss* and 1,794 against. In Salzburg the figures were 103,000 for and 800 against.

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In spite of these clear indications of popular opinion, the victorious Powers opposed any increase in German territory. The Treaty of St. Germain, in September 1919, established Austria as an independent State and forbade any modification of its independence without the consent of the League of Nations. In 1931, when the economic crisis led the Austrian and German Governments to plan a Customs Union between the two countries, the project was forbidden as contrary to the treaty terms. C. A. Macartney's laconic statement that French fear of the Germans on the Rhine was 'an insufficient reason for condemning Austria to be alive' summed up the feelings of many Austrians.

In addition to its fundamental weaknesses, the Austrian Republic lacked the required conditions for successful democratic government.

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A prerequisite of sound democracy is a sense of common purpose. Party rivalry is essential to the democratic system, but it must take place within the framework of loyalty to the State. On the whole, in the First Austrian Republic party sentiment was stronger than patriotism. Of the two main political parties, the Social Democrats were convinced, though moderate, disciples of Marx, believing in the international character of Socialism and not uninfluenced by Marx's theory of class dictatorship. The Christian Socialists, though made up of peasants and industrialists as well as clericals, were predominantly Catholic and traditionalist in sympathy, many of them with monarchist leanings. Both sides tended to attach more importance to realizing their political ideals than to establishing effective government in the new State.

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665 been suspended by the Dollfuss Government and the country
 668 was on the verge of civil war. The Government's harsh and
 ill-considered decision to turn artillery on to the workers'
 dwellings may have cut short the conflict and suffering, but it
 was a final betrayal of democracy that no considerations of
 expediency can excuse.

721 In spite of the serious internal difficulties, it was in the end to
 external force that the Austrian Republic succumbed. On the
 11th of March 1938 Hitler sent an ultimatum to Dr. Schu-
 schnigg, the Chancellor. Within a few hours German troops
 had occupied the country and the *Anschluss* was a fact. The
 Austrian political parties have accused each other of preparing
 the way for this tragedy, but there were deep-lying causes for
 the growth of National Socialism and Fascism that were be-
 yond their power to prevent. In the diplomatic circumstances
 of the time, even had Austria been a model democracy, it would
 have had no more chance of withstanding Hitler than had the
 courage, patriotism, and democratic example of the Czechs.
 As the only German country outside the Reich, Austria was
 the first object of Hitler's ambition. The opening page of
Mein Kampf contains the sentence: 'German-Austria must
 return to the great German Mother Country'.

186 In fact, by 1938 the attitude of Austrians towards union with
 648 Germany had changed considerably. Inside Austria nearly
 twenty years of enforced independence had inevitably left
 their mark: the people were acquiring a sense of pride in their
 achievement and hope for the future. Recent developments in
 Germany also had had a decisive effect.

433 Economically Austria had made important progress. In 1918
 its position seemed hopeless. But the Austrian Government
 and people gradually accustomed themselves to the idea that
 their fate was in their own hands. By 1937 the country was
 producing three-quarters of its food. Valuable oil-fields had
 been discovered at Zistersdorf, north-east of Vienna, and oil
 production had risen from 73 tons in 1932 to 32,849 tons in
 1938. The tourist industry had developed rapidly and covered
 over 80 per cent of the country's trade deficit. When the

- 433 *Anschluss* took place, Austria already had a good chance of becoming a viable State.
- 657 Politically the main achievement had been in the field of social legislation. Nowhere in Europe did the Socialist ideal find more impressive realization than in the legislative programme initiated by Ferdinand Hanusch, the Austrian Secretary of Social Administration between 1918 and 1920, and in
- 367 the housing schemes carried out between the Wars by the Vienna municipality under Social Democratic control. These improvements gave the young Republic something to be proud of, something, moreover, which was associated with the difficult present rather than with the glorious past, and which
- 648 directed attention to the possibilities of the future. Another political event of importance was the appeal for financial help made to the Allies by the Christian Socialist Chancellor, Monsignor Scipel, which led to the appointment of the League of Nations Commissioner. He was accused of being a traitor by his opponents, but his action established an important precedent in international collaboration. It showed that it was possible to combine patriotism with the acceptance of international control, an innovation of great significance for a small State like Austria.
- 517 In culture and sport the period also brought great success. The triumphs of the Austrian football team, the Vienna State Opera, and the Salzburg Festival stirred the pride and enthusiasm of the harassed Austrian people.
- 186 Anton Wildgans' *Rede über Österreich*, which was written in 1929, reflected the development of Austrian patriotism and Austria's sense of identity as a State. This great speech was intended for a foreign audience. But it was also a noble expression of patriotic faith. Its enthusiastic reception in Austria was a clear indication that it summed up ideas that were germinating in many Austrian minds.
- 648 Austria's growing self-consciousness and sense of independence were stimulated by Hitler's rise to power. Austrian Socialists had been in favour of union with a Germany in which Socialism and democracy were strong, but they had no

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desire to link up with a totalitarian régime practising militarism and racial persecution. Their aversion was shared by many Right-Wing Austrians who had additional reasons for disliking Hitler's Germany. Dr. Dollfuss had been murdered by Nazis, and Dr. Schuschnigg had been insulted at Berchtesgaden. It was significant that shortly before the German ultimatum Dr. Schuschnigg held a successful conference with Viennese Socialists and Communists, although it was too late to have any effect. 648 ●

Hitler himself provided the best proof that the majority of Austrians were opposed to his régime. The German troops crossed the Austrian frontier two days after Dr. Schuschnigg announced his intention of holding a plebiscite on Austrian independence. The Führer was well-informed on Austrian opinion, and decided he must act before the people could express their views.

A clear distinction must be made between the two meanings of the term '*Anschluss*'. In its more general sense of union with Germany it describes the aspiration of the great majority of Austrians after the First World War, an aspiration based on consent and rooted in the principle of racial self-determination. In the case of loyal Imperialists, it was the product of disenchantment and despair, the shattering of the foundations of their existence. With the Socialists it represented the international aspect of Marxism and the conviction that their political ideals could best be realized in alliance with the German Socialist Movement. But since 1938 the term has normally been used to describe Hitler's seizure of Austria in March of that year. In this sense it describes the first phase in the Nazi programme of expansion in Europe, which was carried out by force and threats without any regard for the real wishes of the Austrian people or any intention of respecting their cultural and historical identity.

In the absence of diplomatic support, Austria was powerless to withstand Germany. A minority of Austrians did not wish to do so either. They were tired of the economic struggle, disillusioned about politics, and impressed with German strength.

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Hitler's phenomenal success and his massive histrionic displays had their effects on an impressionable people. But one year's close acquaintance with National Socialism was sufficient to break the spell.

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Austria was renamed the *Ostmark*, and its interests were systematically subordinated to those of the *Reich*. The most important Austrian banks and industries were placed under German control. To most Austrians it was intolerable that Vienna should become a provincial city and each of the ancient provinces a *Gau* controlled from Berlin. The difference between Prussian totalitarianism and the Austrian spirit became clear as never before, and one Viennese spoke for many when he said it was only an accident that Germans and Austrians spoke the same tongue.

When the War ended, the disillusionment of the Austrian minority was complete. Six more years of Nazi domination had confirmed the impression of the first twelve months. Failure and disaster had discredited a movement which was built up on practical success.

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More important was the transformation of the Austrian people as a whole. The change that started between the Wars was completed during the German occupation. By 1945 the name 'Austria', honoured by Hitler's disapproval, had gained a new significance. The Austrian people had acquired a will for independence. They had also learned much from their political experience and failures.

So when Austria was liberated by the Allied armies and the Second Austrian Republic was formed, the restored State faced the challenge of post-War problems in circumstances quite different from those in which the First Austrian Republic had confronted the problem of its existence after 1918.

Austria's difficulties in 1945 were formidable. Like most European countries, she suffered from War damage and economic dislocation. In her case were added the political and economic effects of seven years' subjection to Germany, during which there had been a complete break in administrative continuity, and industry and agriculture had been subordinated to

668 division was virtually written off by staff sabotage. The division had been defeated on the Western front; its re-formation was repeatedly delayed by changes in the rendezvous and misdirection of reinforcements and equipment, and finally it was reported ready for action when its personnel was only at half strength.

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• 648 Outside their own country Austrians fought with the Maquis in France and with Resistance groups in Italy. An Austrian battalion was formed as part of Marshal Tito's National Liberation Army. Many Austrians taken prisoner by the Allies asked that an Austrian fighting force should be formed to take part in the liberation of their country. But Allied consent was unfortunately delayed until April 1945, when it was too late to be of use.

During the last months of the War the enterprise and courage of a few individuals led to liaison being established between the Austrian Resistance Movement and the Allies. In the autumn of 1944 messengers with forged papers travelled to and fro between Austria, Switzerland, and North Italy. During October and November the Provisional Austrian National Committee, known as POEN, was set up in Vienna with its secret communications centre in the Grand Hotel, in order to provide a representative political organ through which the military Resistance Movement could make contacts abroad. After about four months most of its members were arrested by the Gestapo and the organization was destroyed. But not before it had fulfilled a valuable function. In February 1945 a representative of the Austrian Resistance went to Paris and established relations with the Allied General Staff, the French Foreign Ministry, American and British diplomatic representatives, and Russian liaison officers. He told them about the activities of the Resistance Movement and the existence of POEN, and asked them to give recognition to POEN, appoint liaison officers, and supply weapons and radio sets for the Resistance. The reactions of the Allies varied. The British showed caution, and the Americans were more ready to give practical assistance. Two American liaison officers were

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appointed, and two radio sets were smuggled across the frontier for use at Innsbruck and Salzburg. It was also arranged that the B.B.C. and the Voice of America should broadcast for POEN and the Austrian Resistance Movement.

In March, Fritz Molden, a young Austrian who had played a leading part in establishing relations with the Allies, visited the Allied Air Headquarters at Caserta. He took with him an appeal from the Resistance Movement, asking the Allies not to bomb civil objectives in Austria and pointing out that restraint on this point would make the task of the movement in organizing opposition easier. The Americans gave Molden, as the representative of POEN, the status of a special liaison officer with their forces in Italy.

The last Nazi effort to mobilize forces for the defence of Austria was the calling out of the *Volkssturm* in the autumn of 1944. This *levée en masse* of those that remained was doomed to failure from the start. All able-bodied men of military age had already been conscripted, and the hurried mobilization of the young, the old, and the unfit could only have succeeded had they been filled with a spirit of devotion to the cause. But this was almost entirely lacking. Drill and training in most cases were not taken seriously, often as the result of tacit understanding between officers and men. An Associated Press report from Buchs on the Austro-Swiss frontier towards the end of March 1945 estimated that 60,000 Austrians had fled to the hills to avoid the new form of service. During the liberation campaign that followed, not only members of the *Volkssturm* but whole units of the *Wehrmacht* under Austrian officers broke up and went home, changing their uniforms for civilian clothes. In these circumstances, Hitler's Wagnerian plan for a last stand in his 'Alpine fortress' at Berchtesgaden was abandoned. He chose for the final scene Berlin, where the details were less likely to escape his control.

In the brief battle for Vienna the general attitude of the population had a decisive influence. A group of army officers, led by Major Biedermann, who had established contact with the Russians, were betrayed and executed soon after fighting

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[731] government of Lower Austria, shortly afterwards becoming President of the Austrian *Bauernbund* and Governor of Lower Austria. At the same time he improvised measures for the relief of famine in Vienna. The Russian military authorities were persuaded to put two or three dozen lorries at his disposal. The drivers reported to him every morning, and, accompanied by volunteer civilian guides, were sent out into the countryside to collect supplies. In the evening they returned, and the food was handed over to the municipality for distribution. Figl was specially qualified to perform this service, because he had the confidence of the peasants.

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643 While these developments were taking place in Vienna, a series of events had occurred in the country south-west of Vienna which were to have a decisive influence on Austrian history.

In the village of Gloggnitz, at the foot of the beautiful Semmering Pass, Dr. Karl Renner, senior and most respected member of the Austrian Socialist Party, had been living since his enforced retirement from active politics in 1934. In April 1945 he was seventy-four years old, but still strong and active in body and mind. Gloggnitz was not far from Kőszeg, the point on the Hungarian border where the Russian troops first entered Austria. It was therefore one of the first villages to be occupied. Dr. Renner, having advised his fellow villagers to stay where they were and not run away from the advancing army, was disappointed at the rough house-searchings to which all of them were subjected. On Easter Tuesday, therefore, two days after the arrival of the Russians, he took his stick and, without bothering to put on a coat, walked down the street in search of the local command post, in the hope of convincing the officer in charge of the villagers' peaceful intentions and preventing further mistreatment. He was directed to the next village, a mile and a half away, and there by a fortunate chance found some officers who knew his name and past record. He was sent by lorry to higher headquarters at Hochwolkersdorf, where he was received with great respect and spent the evening in discussion with senior staff officers.

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Dr. Renner had entered the lorry under protest. He had left home with the intention of visiting the village command post and then returning. He was therefore concerned both about his family and about their anxiety for him. Nevertheless the evening's conversation and the talks that followed the next day with officers of even higher rank were of great significance for the future. The Russians agreed to assist Dr. Renner in taking the measures necessary for the re-establishment of democratic government in Austria. They assured him that they stood by the Three Powers' declaration at Yalta and that Austria, when liberated, would be free to solve its political and economic problems according to the people's will. Dr. Renner for his part made clear that there could be no question of his acting as a Russian agent. If he were to form a government his commission must come from the Austrian side. It was arranged that he should be given full facilities for his preliminary work first in Gloggnitz and later at some suitable place nearer Vienna.

After a few days at home, during which he worked on a series of declarations and pamphlets addressed to the Austrian people, Dr. Renner and his family were taken to a country house near Wiener Neustadt. Then, to their surprise, they were driven on the 21st of April direct to Vienna.

It was a remarkable accident that brought Dr. Renner into contact with the Russian authorities within a week of their entering Austria. His name was known to educated Russians as a pioneer Socialist thinker on the problem of nationalities, whose writings had influenced Stalin, while he was preparing his essay on *Marxism and the National Question* in Vienna at the beginning of 1913. But that he should have come upon Russian officers, in a remote village at that particular time, who realized his potential importance, was a stroke of fate, the full consequences of which it is impossible to assess. What would have happened had his meeting with the Russian leaders been delayed for some weeks can only be a matter of conjecture.

By character and experience Karl Renner was by far the best qualified man to undertake the formation of an Austrian

643 government in the critical spring of 1945. He was sufficiently far to the Left in his opinions to be acceptable to the Russians and yet sufficiently moderate to be respected by all parties. He had been first Chancellor of the First Republic, and therefore had unrivalled knowledge and experience of post-War problems. He had also been President of the Austrian Peace Delegation at St. Germain. Furthermore, he combined strong political convictions with flexibility of method and willingness to compromise, a mixture of qualities which were to prove invaluable during the coming years.

[642] When he arrived in Vienna, Dr. Renner found, to his pleased surprise, that the political parties had already combined in many municipalities, including the capital, to set up provisional administrations. In Vienna General Körner and his [204] deputies were established at the Town Hall. Representatives of the three parties had joined together to found a new newspaper, *Neues Österreich*, the first number of which appeared on the 23rd of April, after the city had been without a newspaper for three weeks. A first meeting of trade unionists had also [467] taken place, which led to the foundation on the 27th of April of an Austrian Federation of Trade Unions on an all-party basis. Dr. Renner altered his plans to suit the unexpectedly favourable conditions. Calls to action were not required so much as leadership, organization, and the definition of objectives.

643 The Russians installed Renner in a house in the suburb, Hietzing, that was large enough to accommodate his family
 • 648 and small staff and allow conferences to be held on the main
 642 floor. The day after his arrival, the Russian colonel who was acting as liaison officer arranged for leading personalities from the different political parties to come and visit him. The first to arrive was Leopold Kunschak, to whose attitude Renner attached great importance. He was followed by General Körner and Adolf Schärf; the Communists, Ernst Fischer and Johann Koplenig, and others. Negotiations progressed so rapidly that within two or three days agreement had been reached on the membership and constitution of the Provisional

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Government. On the 27th of April, Dr. Renner as Chancellor designate and his proposed colleagues were received by Marshal Tolbuchin, who in the name of the Red Army gave the Government *de facto* recognition and promised it support.

The same day a proclamation was issued in the name of Renner and representatives of the three political parties, which contained a formal Declaration of Independence. It announced the restoration of the Austrian Republic, the nullification of the *Anschluss*, and the proposed establishment of an all-party provisional government with full legislative and executive authority, subject to the rights of the occupying Powers. On Sunday the 29th of April members of the new Government assembled in the council chamber of the Vienna Town Hall, and, after an exchange of speeches between Burgomaster Körner and Dr. Renner, proceeded, accompanied by the City Senate, to take formal possession of the half-destroyed parliament building nearby. There they were greeted by the Russian Commandant of the city; and Dr. Renner, among the ruins and the rubbish that there had been no time to clear away, reaffirmed his faith in the future of free Austria and the democratic resolve of his colleagues and himself. The ceremony concluded with the reading of a declaration to the people of Austria announcing the establishment of the Provisional Government and exhorting all citizens to play their part worthily in the restoration of the country.

The authority of the new Government extended in fact only to Vienna and those areas of Lower Austria, Burgenland, and Styria that the Russians had already freed. Provisional governments were established in the rest of Austria, as the liberation proceeded, and political authority was exercised either by the military governments of the occupying Forces or by Austrian Provincial Governments set up or approved by them. In Carinthia an all-party Government had been formed on Socialist initiative before the British arrived. In the Tyrol, the Resistance Movement, which had already achieved so much, established an Austrian Provisional Government Committee in the face of Nazi opposition: the American forces, whom the

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Resistance leaders had invited to cross the frontier from Bavaria, were given a formal and enthusiastic welcome when they entered Innsbruck on the evening of the 3rd of May.

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Within a year or two of the end of the War a bitter joke was current in Vienna. Austria, it was said, might possibly survive a third World War, but it would certainly not survive a second liberation. Austrian disappointment was understandable. Dr. Renner pointed out in April 1946 that after the First World War Austria had waited six months for the invitation to St. Germain, and that the peace treaty had followed four months later: that was the treatment given to a defeated country, and it was indefensible that a liberated country should be treated worse. Yet, in spite of everything, the overthrow of the Nazi régime in the spring of 1945 was a liberation. Since then Austria has had a large measure of freedom in which to develop its own way of life. Though the continued restrictions on its liberty cannot be defended, against them can be set the considerable amount of material and moral help the country has received from some of the occupying Powers.

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of deep patriotism. In spite of the sordid conditions and immense difficulties, an atmosphere of happy adventure and exhilaration surrounded the whole operation. As one official who took part in it remarked: 'After all, it is not often that one has an opportunity to build up a State.'

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In the work of political and economic reconstruction the Provisional Government received the support and assistance of the Russian military authorities. As will be seen, the Russians at this time were beginning to carry out the systematic confiscation of economic assets which was part of their post-War policy. But this was accompanied by a positive and helpful attitude towards the Government itself. It would be quite wrong to attribute to the Russians at this period the political obstruction they practised later. Buildings were made available for Government departments. There was no interference with the Cabinet's deliberations, and the laws were, with very few exceptions, given tacit approval. In fact, the Provisional Government felt free and unrestricted in the immense legislative task with which it was faced. After all, the Government was a Russian creation, and the Russians must be given credit for the selection of Renner. The fact that he turned out to be a better choice from the Austrian than from the Russian point of view is beside the point.

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The Austrian Communists also, in their own way, furthered the work of the Provisional Government. In view of the key positions they held, this was really to be expected. With Russian support they had obtained much fuller representation in the Cabinet than their strength in the country warranted. In addition to providing Under-Secretaries and a member of the Political Cabinet Council, they held the all-important Ministries of the Interior and Education, which were responsible respectively for security and 'public enlightenment'. But the Communists also contributed to the success of the Government for another curious and surprising reason.

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Very soon after the arrival of the Russians the chosen leaders of the Austrian Communist Party flew into Vienna in Russian aeroplanes: Ernst Fischer and Johann Koplenig from Moscow,

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Nevertheless a great deal was accomplished at every level; by the Central Government itself, by the provinces, and by the municipalities. And it was not long before the results of their efforts could be seen. Following the example of Vienna, in some cases at the same time, the machinery of local government was set in motion in the villages and towns by the joint action of all parties. This work was carried out with the support of the Russian military authorities, who, however, did not attempt to exercise any undue influence. That this attitude should be taken by an occupying Power, in some cases while fighting was still in progress, is something for which the Russians deserve full credit. In Vienna, before the end of April, several tram services were again working, and gas and electricity were available in some parts of the city. At the beginning of May the first trains left Vienna for Klosterneuburg and Wiener Neustadt, and a restricted mail service was started again. At the end of the month the lighting of private houses was possible for short periods daily, and this was followed early in June by the restoration of street-lighting and a considerable relaxation of the curfew regulations that had been introduced in April. A very limited radio service had been opened in April, and on the 12th of June *Neues Österreich* announced proudly that for the first time for seven years the voice of Austria could be heard again by wireless in the outside world.

The two most serious matters to be settled were the problems of food and security.

The famine conditions in liberated Vienna could not easily be overcome. The city's supply problem since 1918 had always been a difficulty, and the situation in the spring of 1945 made it infinitely worse. The breakdown of communications, the vast number of refugees, and the inevitability of the Russian troops living partly off the country, when they first arrived, led in May to the reduction of the ration to 350 calories a day. The Austrians made every effort to improve the situation, though with little success. Figl's improvised collection service has already been described.² But the previous year's stocks were almost exhausted, and the prospects for the new harvest could

² [Ct. cat. 116, p. 20 — Analyst]

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731 hardly have been worse. The fighting in Lower Austria had coincided with sowing time; horses and tractors had been carried off; men of military age were still away, and the forced foreign labour brought in by the Nazis had disappeared. Women dared not go out on to the fields, and their menfolk were unwilling to leave them alone at home, with Russian troops in the neighbourhood. In these circumstances the well-intended exhortations of the *Bauernbund* and the efforts of the Lower Austrian Government could have little effect. The only hope was Allied help, and this was fortunately forthcoming. In May the Russian Army began to release food from its own stocks, and in September all four occupying Powers joined in alleviating Vienna's supply problem.

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648 The disintegration of the Austrian police that accompanied the liberation left the country without a force for the maintenance of law and order at a time when it was most needed. Joint Russian and Austrian improvisation, however, produced a reasonably satisfactory solution of this problem, though an increase of crime was inevitable under the exceptional conditions of the time.

The Russians first established groups of auxiliary police largely under Communist leadership in the Vienna districts and parts of Lower Austria. The Austrian partisan battalion from Yugoslavia, which arrived in Vienna on the 12th of May, was also installed as a kind of Communist party-guard in the Hofburg, the old Imperial Palace, which had become the Russian headquarters. But from the beginning loyal Austrian police officials were also working energetically for the re-organization of the police. They operated at first from the Auersperg Palace, the headquarters of the Resistance, and, as early as the 13th of April, contrived to get a poster printed calling on former members of the police who had not been Nazis before 1938 to present themselves at a rendezvous in the Kandlgasse. It was very fortunate that Oskar Helmer, the Socialist Under-Secretary in the Ministry of the Interior, was one of the strongest personalities in his party. He worked consistently to prevent the re-organized force from coming under

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Communist control and to emphasize the importance of professional training and experience. At his suggestion, on the 23rd of May, Dr. Pamer, a former Police President, replaced a Communist as Police President of Vienna. Finally, on the 13th of June, the whole force was formally taken over by the Police Directorate, a purely Austrian authority.

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By July the Vienna police were nearly 7,500 strong, though only some 1,000 of them had had previous police experience and many still owed their position to their political opinions. In September, at British instigation, the first meeting of the Allied Public Safety Committee was called. From then on the Austrian police were under Quadripartite supervision, and the three Western Powers were able to counterbalance Russian influence.

Dr. Renner's main concern, after his first few months in office, was to ensure the real unity of Austria. The Provisional Government had announced the restoration of the Austrian Republic and declared itself to be the Government for all Austria. Yet *de facto* its authority still only extended to those parts of the country that were occupied by the Russians; that is to say, Vienna, Burgenland, Lower Austria, and parts of Upper Austria and Styria. The Chancellor's two aims were to obtain the recognition of the Four Powers for his Government and reintegrate the country under its control. The continued division carried with it real dangers. Economically, the position was absurd. In so small a country, each part was dependent on the others for its survival. But the iron of Styria was cut off from the engineering industries of the Russian zone. The salt and meat of Salzburg and the Tyrol could not be brought to Vienna, and the oil, grain, and potatoes of Lower Austria were not available to the West. It had always been difficult to feed Vienna. Yet the task had become impossible in a house, as Dr. Renner put it, 'where the larder was walled off from the kitchen by zonal frontiers'.

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Since 1918 the mutual suspicion between Vienna and the provinces had been a menace to the country as a whole. The interests of the city and the rural areas were utterly different,

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When the Western Commanders-in-Chief first arrived in Vienna, the Provisional Government was not recognized by them, and they did not at first enter into official communications with it. Before long, however, the British and American Commanders interviewed Dr. Renner and apparently satisfied themselves that he was a suitable Chancellor and no mere puppet of the Russians. They were further reassured by the results of the first Provincial Conference.

Two of the conditions necessary for recognition of the Renner Government had therefore been achieved, and the Allied Council proceeded to consider what the relationship should be between the Control Commission and an Austrian Government. At its meeting on the 1st of October it decided to recommend to the Governments of the four occupying Powers that the Provisional Government's authority should be extended to the whole of Austria and recognized, subject to certain conditions. The most important condition was that some functions of government should be reserved to the Allied Council, and this was a point on which the Four Powers could not agree.

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On the 13th of September Dr. Renner had sent a note to the Allied Council requesting the unification of Austria, the recognition of his Government, and the holding of free elections. The Allies now decided on recognition without waiting for agreement on the question of reserved functions. During its meeting on the 20th of October Dr. Renner was summoned and informed of this decision. The main conditions of recognition were that the Provisional Government should exercise its functions subject to the guidance and control of the Allied Council as the supreme authority in Austria; that certain functions of government should be reserved to the Allied Council; that one of the main duties of the Provisional Government should be to hold free elections as early as possible, and not later than the end of the year; that the Provisional Government should be empowered to enact laws applying to the whole of Austria, provided that they were first submitted for approval to the Allied Council, and that nothing in the condi-

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727 tions should affect the validity of any Military Government
 ●648 legislation then in force or afterwards enacted. The Allied
 642 Commission also proceeded with the task of examining, and
 where possible approving, the laws and decrees issued by the
 Provisional Government since the 1st of May.

The formation of the Provisional Government in April had
 been Dr. Renner's first great service to Austria since his return
 to active politics. The Allied recognition of his Government
 marked the second stage of his achievement and was of in-
 calculable importance to the future of the country. Without it
 the danger still remained that Austria might suffer lasting
 division and the fate of Germany. It is not surprising, there-
 fore, that the British officer who went to fetch the Chancellor
 to the Allied Council meeting on the 1st of October noticed
 an unaccustomed nervousness on the part of this experienced,
 sophisticated, but deeply patriotic statesman.

666 The main task that faced the Provisional Government, after
 it had been recognized, was the organization of elections. An
 electoral law, after amendment by the second Provisional Con-
 ference, had been passed by the Government on the 19th of
 October and approved by the Allied Council on the 30th. It
 was based on the electoral law of the First Republic, modified to
 disfranchise Nazis and candidates for the Nazi Party, unless
 they could prove they had suffered political persecution under
 the Nazi régime. On the 27th of October the Government,
 in the name of all three political parties, issued an appeal to the
 Austrian people, calling on them in the traditional manner, as
 befitted a civilized and freedom-loving people, to cast their
 votes for one of the three democratic parties.

On the 25th of November the elections were held. They
 passed off in a most orderly manner, 93 per cent of the electors
 casting valid votes. It was generally agreed that the Austrian
 people were able to vote freely in accordance with their
 political opinions. By the end of the month no charges of
 fraud nor complaints from either parties or individuals had
 been lodged regarding the election. In view of the nature of
 some of the elections that took place in Central and Eastern

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very close control. Although the Allies could not agree on the functions to be reserved to the Council, the provision that all laws must be submitted for the Council's approval gave it the last word, so far as legislation was concerned. By the end of January 1946 nearly 300 laws and decrees of the Austrian Government had been considered and acted upon by the Allied Council, aided by its legislative committee. Of these the great majority were approved, though some were amended and a few rejected outright. A significant case of the Council asserting its authority was the demand in November 1945 that all laws and orders of the Provisional Government dealing with military matters should be annulled. The Government Declaration of the 27th of April had mentioned a modest defence force, and Dr. Renner's original Cabinet had included an Under-Secretary for Army Affairs.

This state of tutelage and subjection was tolerable only as a temporary expedient. It was in flat contradiction to the declared intentions of the Allied Powers. At Moscow, Churchill, Roosevelt, and Stalin had described Austria as a victim of Nazi aggression. At Yalta they had declared their intention of restoring to such victims their sovereign rights and self-government in accordance with the principles of the Atlantic Charter. The Austrian Government had every right to demand that this decision should be carried out, and the occupying Powers themselves would reveal the sincerity of their diplomatic convictions by the efforts that they took to implement it.

During the spring of 1946 a series of powerful pleas were made on the Austrian side for revising the system of Allied control. On the 5th of April Dr. Renner gave a lecture to the Austrian League for the United Nations entitled 'Austria, St. Germain, and the Coming Peace'. In it he made the comparison between Austria's position after the two World Wars to which reference has already been made. Two weeks before, Karl Seitz, the veteran Socialist leader, made a speech in Parliament in which the authentic voice of democracy was heard. He spoke of the power of veto in parliamentary history

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727 and the hesitation of even kings and emperors to make use of it, because it brought them into conflict with the people. In Austria, however, laws now passed by the freely elected representatives of the people were subject to the sanction of authorities outside the State. After a great war against Fascism in Europe they could be proud that Fascism had been driven out, but the Allied champions of democratic rights were now claiming the right to approve laws passed by the Austrian Parliament. He ended:—

‘We appeal to the democratic sense of the English, French, Russian and American peoples. We appeal to them: safeguard your own dignity by safeguarding the dignity of this small Austrian State and its parliament. . . . Democratic countries of Europe: protect your most important and your greatest idea, protect Democracy.’

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648 Shortly afterwards the Vice-Chancellor, Dr. Schärff, accompanied by Dr. Pittermann, a fellow Socialist and member of Parliament, paid an unofficial visit to London, where they met members of the British Labour Party. Schärff took advantage of the opportunity to impress on Ernest Bevin the urgent need to improve the conditions governing the occupation of Austria. The British Government were willing listeners. The four occupying Powers were bound by their agreement of the 4th of July 1945 to decide on the new relationship that should exist between themselves and the Austrian Government after the elections had taken place. Even before the elections were held, in November 1945, the British Element of the Control Commission in Vienna had started work on a draft agreement, and early in 1946 Allied quadripartite discussions on the British draft had begun. Months of hard negotiations followed, and by June a revised occupation statute was ready for signature. It was perhaps fortunate that during that month the British, who had taken the initiative in the matter, occupied the chair in the Allied Council. The persuasiveness of Lieut.-General Steele, the new British Commander-in-Chief, overcame the final minor differences.

727 The New Control Agreement was signed by the occupying

COALITION AND QUADRIPARTITE CONTROL 39

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In the first place, the burden of the occupation has been progressively reduced. During the course of 1946 the total strength of the occupying forces fell, in round figures, from 700,000 to 120,000. During the spring of that year the three Western Powers proposed that the maximum strength of troops in each zone should be 25,000. The Russians refused to agree and would not even discuss a proposal for more drastic reduction put forward in 1948. But the process of reduction nevertheless went on. In the autumn of 1950 it was estimated that the combined forces of the Western Powers totalled less than 25,000, while the Russians numbered some 44,000.

Occupation costs were cut correspondingly. During the first eighteen months of the occupation its cost was estimated by the Austrian National Bank at 3,600 million schillings, more than half of which had been incurred by the Russian Army. In 1952 the total cost was 453 million schillings, though the schilling was worth less than in 1946. This meant that the percentage of the total national budget spent on the occupation was less than half of that devoted to military expenditure in 1937. In June 1947 the American Government renounced its claim to occupation costs from the Austrian Government and undertook to pay in dollars for all services and supplies furnished by the Austrian economy for the maintenance of American troops. It also agreed to pay 308 million schillings in respect of outstanding obligations. Henceforth the American forces in Austria were justly described as 'paying guests'.

In 1952 a further step was taken by the Western Powers to aid the Austrian economy with the decision to build special accommodation for their troops. This enabled them to release requisitioned houses much needed by the people and hotels urgently required for the use of foreign tourists. The example was set by the Americans, when they planned to build a military town near Salzburg. It was followed by the French at Innsbruck and by the British at Zeltweg in Styria.

The restoration of Austrian sovereignty is dependent on the signature of a State Treaty, but the Western Allies meanwhile

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have done all that they can to restore normal diplomatic relations with the Austrian Government. All four occupying Powers had agreed to exchange political representatives with Austria before the end of 1945. During the next two years the Allied representatives in Austria were given full diplomatic status, and in 1950 the Governments of the three Western Powers announced that their diplomatic representatives had been appointed High Commissioners. This meant that each of the three Powers had separated the command of its Army of Occupation from the High Commissionership, and that the Western members of the Allied Council would in future be civilians.

The United States and Britain have also contributed a great deal to the industrial and agricultural revival of Austria. This subject will be considered in more detail in connexion with the country's economic recovery. But it is something that cannot be overlooked in dealing with the positive aspect of the Allied occupation. The presence of American and British economic experts in Austria during the post-War years has been of direct and indirect value to the country. In particular, the United States' responsibilities as an occupying Power have added realism and vitality to the execution of the European Recovery Programme in Austria.

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From December 1945 until February 1953 the Coalition Government of Figl and Schärf under quadripartite control gave stability and continuity to Austrian political life. Within this constant framework, however, significant changes took place.

In November 1949 a currency reform law was approved by the Cabinet in spite of Communist opposition. It was the first occasion since the formation of the Government on which the principle of Cabinet unanimity was abandoned, and Dr. Altmann, the Communist member, resigned. The Ministry of Energy and Electrification came to an end with his membership of the Government. Communist collaboration with the other parties in the Coalition had long been formal rather than real, so his resignation had little effect on Government policy.

UNRRA AND FOREIGN RELIEF

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were a pre-condition for the purchase of food from abroad, 433
and undernourishment stood in the way of industrial recovery. 439

The food problem remained serious for at least three years. 433
In 1947 it was often found impossible to honour the inadequate 146
basic ration scales of 1,500 to 1,600 calories, and medical
inspections established that nearly 50 per cent of Viennese
school children were under-nourished. Until 1948, when
Austria had its first good post-War harvest, the population as
a whole remained noticeably under-fed. By then most people's
savings had already been spent and their mental and physical
powers of resistance had been seriously weakened.

In spite of this melancholy story, great efforts were made to
deal with the situation. Had this not been the case, the pro-
longed deprivation and distress of the Austrian people would
have ended inevitably in political disaster.

In the autumn of 1945 it was decided to invite the United 648
Nations Relief and Rehabilitation Administration to organize 657
a supply programme for Austria. The way had been prepared
in August, when the UNRRA Council had decided that as
Austria was a liberated country there was nothing to prevent
relief and rehabilitation operations being undertaken there,
provided the occupying Powers approved. At the time, how-
ever, the necessary funds were not available. In November the
immediate initiation of an UNRRA programme was urged,
particularly by the United Kingdom, and before the end of the
month an UNRRA Working Party had arrived in Vienna to
obtain preliminary information regarding requirements. In
December UNRRA headquarters, following a request from
the Allied Council, authorized negotiations for an agreement
with the Austrian Government, subject to the Council's
approval. Brigadier R. H. R. Parminter, who had been serving
since September as chief of the UNRRA Displaced Persons
Operations in Austria, took over the duties of Chief of Mission
on the 1st of January 1946 and conducted the negotiations.
An UNRRA Bureau was set up in the Austrian Federal
Chancellery early in the New Year to co-ordinate the transport,
administration, and distribution of UNRRA supplies. On the

648 5th of April a formal agreement covering the relief programme
657 was signed by Brigadier Parminter and the Austrian Minister
for Foreign Affairs.

Although it had originally been hoped that UNRRA would be in a position to start operations on the 1st of March, this estimate proved too optimistic. It was finally decided that the organization should assume its responsibilities by three stages in April, May, and June, the beginning of June being the date on which it should be responsible for the actual delivery of supplies. To make this programme possible the Chief of Mission obtained the promise of each of the four occupying Powers to do its best to make available one month's food supply for its own zone from stocks already in the country. Even in June UNRRA had to borrow supplies from the American and Soviet Elements.

Allied help, which had first been given in the summer of 1945, was thus continued in order to tide Austria over the transition period. Throughout the whole winter and spring the country was dependent on the Allies for food and other essential supplies. At the end of 1945 the Russians agreed to the export of food from their zone into Western Austria. Coal was brought in from Germany. Raw materials, vehicles, clothes, and medical equipment were provided. Military stores belonging to the German army were handed over to the Austrian Government.

The UNRRA administration in Austria lasted from the spring of 1946 until the end of June 1947. Its main work was the supply and distribution of food. From June 1946 until October, when the Austrian harvest became available, 80 per cent of the rations of the non-agricultural population were provided or paid for by UNRRA, and UNRRA supplies formed a substantial part of the rations so long as the administration lasted. The total value of the food supplied amounted to \$81,206,600, in addition to \$20 million that were paid to the Allied military authorities for food provided by them.

648 The second largest item on the UNRRA budget was in
433 respect of agricultural supplies. After food itself, aid to increase

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food production was Austria's most urgent need. When UNRRA started operations the prospects were not at all good. A large part of the seed reserves had been used up as food. Practically no artificial fertilizers were available. There was a lack of farm implements and tractors, all of which had been worked hard during the War. In the chief grain-growing areas of the Soviet zone there was a serious lack of livestock, most of the horses and cattle having been driven west by the Germans before the advancing Russian army. UNRRA spent \$18,818,600 on agricultural supplies: about \$4.5 million on machinery, \$2 million on fertilizers, and more than \$10 million on seeds.

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After these two main items had been covered, comparatively little money remained over for other requirements. \$6,492,400 were spent on industrial rehabilitation, mostly on raw materials, transport, and communications; \$1,789,400 on clothing, and \$1,706,200 on medical supplies.

UNRRA'S main effort in Austria was spent on short-term needs. The emphasis was on relief rather than rehabilitation, when the country's fundamental need was to build up its food production and purchasing power. Yet, given UNRRA's limited resources, the choice made was inevitable. The non-agricultural population was on the verge of starvation, and the health of the people as a whole was the essential condition of further progress towards recovery. The second stage in Austria's economic revival was a matter of long-term planning and was made possible by Marshall Aid. UNRRA laid the necessary foundations.

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By the autumn of 1946 it became clear that UNRRA aid could not last much beyond the end of the year. In November the Federal Chancellor sent a letter to the Allied Council asking for foreign credits to help meet the deficit for 1947, which the Government estimated at \$178 million.

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The first country to respond to this request was Britain. Towards the end of 1946 the British Government agreed to make available £8,500,000 sterling for relief and reconstruction and a further £1,500,000 as a commercial credit for the

• 648 purchase of raw wool. During the course of 1947 about
457 £4 million worth of surplus British military supplies was also handed over to Austria.

That Britain set an example at this critical juncture is a fact that has not been forgotten by Austrian statesmen. Yet it was clear that the United States alone had the resources to provide assistance on the scale that was required. Generous American help was soon forthcoming. In the first place, a special War Department grant, intended for the American zone, was made available for the whole of Austria. In February 1947 Herbert Hoover visited Vienna to investigate the food situation as President Truman's Special Representative. In a subsequent report he recommended a post-UNRRA relief programme lasting until July 1948, and Congress voted special funds for the purpose. Over \$15 million worth of surplus American military supplies was also made available to the Austrians. The help received by Austria from the United States under all these headings during the course of 1947 reached a total of over \$100 million, and it was continued during 1948 until the beginning of Marshall Aid.

The Canadian Government provided assistance to the value of \$3,400,000, and valuable consignments of food were also received from the Norwegian and Irish Governments.

Austria was thus dependent on supplies direct from the Allies both before and after the period of UNRRA administration, and the greater part of them were provided by the United States and Great Britain. The importance of this contribution to the Austrian economy can hardly be exaggerated, the amount supplied being considerably more than the total UNRRA deliveries. In 1947 only 1 per cent of the rations of Austria's non-agricultural population was covered by commercial imports, although nearly two-thirds of them were imported. Over 60 per cent therefore came from outside sources, and UNRRA itself had ceased operations in Austria by the middle of the year.

434 During the post-UNRRA period the ration situation considerably improved. In the second half of 1947 the basic ration

146 heavy workers, children, or nursing and expectant mothers,
434 were entitled to additional or special rations. Children had less calories, but received a special allocation of milk. In the case of employees the addition was small, but for workers of all categories and for nursing and expectant mothers it was considerable, though the minimum requirements were correspondingly greater.

• 648 The second explanation was the widespread and well-organized relief work undertaken by a large number of foreign organizations, mostly on a private and voluntary basis.

Of the countries that had themselves been engaged in the War, the United States and Britain took the lead in providing voluntary relief for Austria. By the beginning of 1947 a group of British societies, pooling their resources and working with the British Red Cross, had, together with the Irish Red Cross, delivered over 5,000 tons of food, 400 tons of medical supplies, and forty tons of clothing to Austria. During the summer of 1946 the British Forces in Austria organized a highly successful Searchlight Tattoo, the proceeds of which, amounting to 400,000 Austrian schillings, were handed over to the mayor of Vienna for the benefit of the children of the city. By the beginning of 1947 various American charitable organizations had delivered to Austria over 9,500 tons of food and 320 tons of clothing. A large-scale relief scheme had been organized, known as the Co-operative American Remittances to Europe, which was happily abbreviated to the word CARE. Throughout the post-War years the arrival of large food parcels, known as CARE packets, was a cause of much happiness and gratitude amongst a great many individuals and institutions in Austria. The Quakers of both countries, in addition to distributing food and clothing, made a special contribution by organizing holiday homes for young people.

Of the neutral countries, Switzerland and the Scandinavian nations made the outstanding contributions.

The first help from Switzerland arrived in the Tyrol and the Vorarlberg as early as May 1945, and by November provisions and medical supplies had begun to reach Vienna. During the

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following year the Swiss Relief Organization provided substantial midday meals for 9,500 children between the ages of six and fourteen in the most distressed districts of Vienna. Holiday homes for children were organized and improved, and food and other forms of relief were provided for old people. One of the most typical and imaginative of Swiss welfare activities was a scheme by which every month 200 children, who were considered to be in danger of tuberculosis, were taken from Vienna for a four weeks recuperation period in Switzerland. By the summer of 1948 over 30,000 tons of foodstuffs, clothing, shoes, and medical supplies had been sent by the Swiss to Austria. 648 •

In February 1946 a large-scale relief scheme for Vienna was put into operation by the Swedish Committee for International Relief, acting through the Swedish Red Cross and Save the Children Fund. It was arranged to provide extra nourishment over a period of six months for the 54,000 children in the city between the ages of three and six. They were divided into three groups of 18,000, each of which in turn was fed for a period of two months and provided with extra milk for the remaining four months. The food for the purpose was brought from Sweden by road and distributed under Swedish supervision. In this way a substantial contribution was made to the health of Vienna's children. Swedish relief work was carried on until April 1949 amongst Viennese children, and was gradually extended to the whole country, especially to 6,000 needy students at Austria's three universities. Altogether 5,651 tons of food and 447 tons of clothing were brought by Swedish organizations to Austria.

Danish and Norwegian societies played an important part in Austrian relief work, bringing in 1,671 tons and 1,550 tons of supplies respectively. The Danes had a share in the relief work amongst children and old people. The Norwegians paid special attention to those suffering from tuberculosis, and invited to Norway as guests children of the victims of Nazi concentration camps.

Charitable societies in Canada, South Africa, Holland, and

648 Belgium also made contributions to Austrian relief. Help was given by various international religious organizations, the International Red Cross, and the International Children's Emergency Fund, usually known as UNICEF.

The combined effect on the Austrian people of the foreign relief work was considerable. It reduced their suffering, raised their morale, and restored their faith in a shaken civilization. It was undertaken on a generous scale by such fortunate neutrals as Switzerland and Sweden. But a great deal was done by countries that in varying degrees had themselves suffered during the War. Against a background of post-War disillusionment and cynicism this example of spontaneous and efficient international altruism was an encouragement and an inspiration.

The first journey that Leopold Figl made abroad after becoming Chancellor was in the summer of 1948 to Switzerland, where he expressed the thanks of the Austrian people for Swiss aid. In 1950 the Chancellor and Vice-Chancellor together paid visits to Sweden, Norway, and Denmark, and thanked the Scandinavian nations for their help. In his reply to Figl's speech of thanks in Berne the Swiss Federal President summed up the significance of foreign relief to Austria as follows: 'According to an ancient Christian custom the receiver is not indebted to the giver; on the contrary, the giver owes the receiver thanks for providing him with the opportunity to obey the command to be charitable. Your prisoners and needy children have made it possible for us to hold high the torch of western culture in days when it was being obscured.'

VII

Marshall Aid and Economic Recovery

IN his speech at Harvard on the 5th of June 1947 the American Secretary of State, Mr. George Marshall, gave an invitation and a challenge that resulted in the European Recovery Programme. He said that the confidence of the European people in their economic future must be restored and that the initiative in drawing up the necessary plan must come from Europe. The United States would be prepared to help, but any assistance the American Government might give henceforth 'should provide a cure rather than a palliative'. He was clearly dissatisfied with the piecemeal manner in which American aid had been given to various countries in the past. What was wanted was a well-considered long-term programme. 000

Up to the summer of 1947 Austria's political leaders had not been able to look very far into the future. They had been too concerned with the problems of the immediate present. A starving or semi-starved man has no objection to piecemeal help, and has neither the physical nor the mental energy to work out long-term plans. The success of UNRRA and foreign relief, however, had prepared Austria for the second stage in post-War recovery. 648

On the 3rd of July Britain and France invited all European countries except Russia and Spain to attend a conference in Paris on the Marshall offer. The Austrian Government accepted, and the Federal Chancellor informed the Allied Council accordingly. The decision had been made separately by each of the two main political parties, and at a subsequent Cabinet meeting the single Communist member concurred in making it unanimous.

Mr. Marshall had made clear that his offer included Russia. No invitation to the Paris Conference had been sent to Russia,

648 because the British, French, and Russian Foreign Ministers had already met in Paris at the end of June, and Mr. Molotov had declared that the Soviet Union would not take part in the proposed European Recovery Programme. Russia also made it clear that she would consider attendance at the Paris Conference as an unfriendly act. As a result, the invitation was finally declined by all the East European countries under Russian influence, including Czechoslovakia, which had already accepted, and Poland and Finland, which had showed signs of wishing to do so.

Austria's decision to participate in the European Recovery Programme, therefore, had far-reaching diplomatic consequences. When the choice was made, it appeared likely that Czechoslovakia would follow suit. But, with the sudden reversal of the Czech attitude, Austria was left in a precarious position. She alone of the countries under Russian influence had come to an independent decision. In fact, so far as economic policy was concerned, the middle ground between East and West to which Austria really aspired no longer existed, after Russia had rejected the Marshall offer.

In the Allied Council's meetings in Vienna during July and August the Soviet High Commissioner repeatedly attacked both the Marshall Plan and Austria's decision to take part in it. He accused the American Element of the Control Commission of taking advantage of Austria's economic difficulties to render the country entirely dependent on the United States. The agreement signed between Austria and the United States covering Austrian participation in the European Recovery Programme, he said, imposed on Austria conditions incompatible with her sovereignty. It gave the United States control over Austria's production, trade and customs policy, budget and finances, and the general direction of her economic development. Austria became subject to a régime of capitulation under which American dealers and business-men would have unlimited right to make themselves masters in Austria. The Austrian Government was warned that the Soviet Command held it responsible for all consequences arising from the

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acceptance of such conditions. The United States High Commissioner replied by declaring that he would welcome aid to Austria under similar conditions from any other Powers, and that the American wish was for Austria to become independent of United States assistance as soon as possible. 648 •

The attitude of the Austrian Government in face of the implied Russian threat was courageous and firm. It informed the Soviet High Commissioner that some of the precautionary conditions in the agreement of which he complained were made necessary by the extra-territorial practices indulged in by the industrial enterprises in Austria under Soviet administration. These made it impossible for the Austrian Government to give assurances that American relief supplies would go exclusively to meet the needs of Austrians and not 'those of other Governments'. It was confident that the United States would be ready to withdraw the conditions as soon as the assurances could be given, and suggested that a good first step in that direction would be for the Soviet administration to begin conducting the industries under its control in accordance with Austrian laws and regulations.

Although the Paris Conference to discuss the Marshall offer met on the 12th of July 1947, the European Recovery Programme did not go into effect until the 3rd of April 1948, when the United States Government finally approved the first instalment of the necessary funds. By that time Austria had had almost three years in which to recuperate after the War. Before considering the contribution of Marshall Aid to Austrian recovery, therefore, it is necessary to examine briefly the state of the Austrian economy at the beginning of 1948.

Apart from the disastrous legacy of the War and the hand-to-mouth economic policy forced on the Austrian Government by lack of food, Austria had to contend with two other difficulties during 1946 and 1947. They were both unusually dry years, and there was a crippling shortage of coal. 731

Rainfall means a great deal to Austria, partly owing to its dependence on hydro-electric power, and partly because the climate of the chief grain-producing area is only just wet

600 and its own zone. In addition, the occupation furthered the
 • 648 development between Austria and the Allies of the cultural
 517 diplomacy that has made such rapid progress in recent years.
 Leaders in this field were the French with their well-organized
Division des Affaires Culturelles in the French Foreign Office.
 Its headquarters in Austria was the magnificent Lobkowitz
 Palace in Vienna, and a very active French Institute was also
 set up in Innsbruck. The British Council opened an office in
 Vienna towards the end of 1945, and later established branches
 in Graz, Klagenfurt, and Innsbruck. The Russians worked
 mainly through 'The Society for the Cultivation of Cultural
 and Economic Relations between Austria and the Soviet
 Union', which was started soon after the end of the War.
 While the Americans, though concentrating entirely on their
 Information Services at first, finally sent representatives of
 the Cultural Affairs Branch of the State Department to
 Austria.

The presence of foreign cultural organizations in their
 country stimulated the interest of Austrians in a form of
 diplomacy to which they are well suited by temperament and
 tradition. As will be seen, the French and British cultural
 representatives furthered the development of relations between
 Austria and their own countries in a wide variety of ways.
 But the Austrians, without any special organization of their
 own intended for the purpose, undertook a series of major
 ventures in cultural diplomacy which made a great impression
 in many European countries and in North America. A series
 of cultural conventions were also signed by the Austrian
 Government; with France in 1947, with Italy and Great
 Britain in the spring and autumn of 1952, and with Belgium
 early in 1953.

871 The damage done by the Nazis to the Austrian educational
 727 system was a most serious threat to the country's future,
 because the damage was spiritual as well as material. A system-
 atic attempt had been made to pervert the minds of teachers
 and pupils. Fortunately its effects were modified considerably
 by home influence and by the anti-Nazi convictions of many

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assistants. Subsequently the situation improved, as an increasing number of returned prisoners of war became available and some relaxation was allowed in the law excluding all former National Socialists from teaching. 875

The shortage of food was so general that the educational authorities were not in a position to make special arrangements for school-children, but, as has been seen, much was done for them by Swedish, Danish, and Swiss voluntary relief organizations. During the winters that immediately followed the War it was only possible to heat a proportion of the schools, the 'winter schools', as they came to be called; and then the already large classes doubled up or the shift system was intensified. The acute fuel shortage at the beginning of 1947 led to so-called 'coal holidays'. 871 727

The Allied cultural and educational organizations played an important part in breaking down the intellectual isolation from which the teachers had suffered so long and of which the best of them were acutely conscious. The French and British ran summer schools for teachers in Austria each year, which were also attended by teachers from France and England; and visits for Austrian teachers were arranged to England, France, Switzerland, and the United States. A limited number of Austrian school-children were also enabled to travel abroad. With the active co-operation of foreign countries, the Austrian Ministry of Education revived some of the schemes for exchanging teachers which had been in operation before the *Anschluss*. 648 • 875

Education is one of the subjects on which there are strongly felt differences between the People's Party and the Socialists. Since the War the differences have been accentuated by the fact that for more than five years Dr. Hurdes, the Minister of Education, was also General Secretary of the People's Party, and by the fact that the Vienna School Board was under Socialist control. The main subjects of difference are religious instruction, private schools, and the best method by which a ninth year could be added to the period of compulsory schooling. There is agreement on the principle of extending the 871 665

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impossible to replace books and instruments that had been damaged and destroyed or to modernize equipment after years of neglect. Under such conditions serious research in many branches of science was impossible. To give one isolated example, in 1948 the Department of Astronomy at the Technical Institute in Vienna received a total monthly grant for books and equipment of 50 schillings—that is to say, \$2.00 to \$5.00, according to whether the black-market or official rate of exchange is taken. Such expensive new apparatus as was received by the universities and technical institutes often came, in one way or another, without payment from the United States. 874 727

In spite of these formidable obstacles, the war-weary and elderly professors set about the task of building up the academic life of their country with devotion and idealism. In the middle of April 1945, while fighting was still going on, members of the staff of Vienna University met together to consider what could be done to rebuild their university on true Austrian lines. Before the end of the month they had elected a Senate and Rector to take charge of the work of reconstruction.

There has been no lack of students since the War in Austrian universities. Young Austrians, including many ex-service-men, have been anxious and impatient to equip themselves for some useful and constructive occupation after years of war and misdirected effort. So it has come about that the student body has shown a considerable increase on the pre-War level and for several years has exceeded 20,000. In the winter term of 1950-1 it numbered over 22,000, which was 43 per cent above the 1937-8 figure. Austrian universities continue to attract hundreds of students each year from Eastern Europe, and the number of students from the West, including the United States, has been increasing.

Foreign cultural organizations in Austria have done what they can to help. French and British professors and lecturers have visited Austrian universities. Austrian scholars have been invited to England and France, and scholarships given to Austrian students for foreign study. Harvard University has 874 648 ●

874 organized an international seminar in Max Reinhardt's mansion
648 near Salzburg, where American, Austrian, and other European
students have studied together. Most important of all, from
the point of view of its long-term effects, a large-scale and
stimulating exchange between Austrian and American uni-
versities has been made possible under the Fullbright Law.

The fact remains that academic work in Austria is being
carried on under great difficulties. Learning and scientific
research have always been dependent in some degree on wealth
and patronage, and in the present highly technical age this
applies more than ever before. Austria's universities and
technical institutes will only flourish again by international
standards when the country's economic position is stronger
than it is today or as a result of foreign endowments on a scale
that can hardly be expected.

874 In addition to its schools and universities, Austria before the
War had a very active adult education movement, which
reflected the social ideals of the First Republic. After the War
the difficulties in the way of restoring the vitality of the adult
education centres throughout the country were considerable.
They suffered from the same troubles as the universities and
schools: material damage, lack of fuel, and shortages of staff,
books, and supplies. Moreover, because they were voluntary,
they tended to come off worse under the exacting post-War
conditions, which made so many demands on people's energy
and resilience. So far as the public authorities were concerned,
the schools and universities had to have priority. Yet, after an
inevitably slow start, the idealistic drive behind the movement
asserted itself. During 1949 there were over 35,000 registra-
tions for courses at Vienna's adult education centres, which
compared favourably with pre-War figures, and the revival
was reflected in the provinces, where attendances increased
and new centres were founded. In Lower Austria an interest-
ing development took place at the suggestion of the Ministry
of Education. An association was founded to encourage co-
operation between all groups and organizations engaged in
adult education in the widest sense of the term, such as educa-

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tion centres, people's libraries, folk-song and folk-dancing clubs and art societies. The example was soon followed in a number of other provinces. 874

An important part in the adult education movement was played by the so-called people's libraries, from which books could normally be borrowed without charge. Some were run by the villages and municipalities, some by the churches, some by trade unions, and others by political parties or voluntary associations. Their number rose within two years from a low level of 400 in 1945 to 1,257 in 1947.

The lack of books was one of the main cultural problems in post-War Austria. The intellectual isolation and severely restricted literary diet of the Nazi régime were followed by a period of dangerous uncertainty after Hitler's power had collapsed. A great deal would depend on how the mental and spiritual void was filled which had been left by the failure and exposure of the whole Nazi system. 214 727

Austrian journalism rose bravely to the occasion, but in the early days Austria's own contribution to the solution of the problem was limited by economic dislocation, shortage of paper, and absence of the conditions conducive to creative effort. The Allied Information Services did a great deal, and two British organizations took the lead in remedying the lack of books. By an imaginative stroke Mr. Ernest Bevin gave orders for two aeroplane loads of English books to be flown over to Austria early in 1946. This enabled the British Council to hold a highly successful book exhibition in Vienna during March, as a result of which nearly all the 20,000 books were sold within a short time and a large number of additional orders were received by London publishers. The British Foreign Office and Treasury made arrangements by which the Austrians could buy the books with their own currency and the British publishers were paid in sterling. Henceforth the main restriction on the supply of English books in Austria was the limited numbers available in Britain itself, where the paper shortage was still acute. The following year the British Council organized six further book exhibitions in provincial 214 648

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648 centres, and thus extended to the whole country the opportunities already given to the capital. The British Information Services also made arrangements to print in Austria special cheap editions of a selected number of English books. As a result of these various efforts Austrians were given access to the Western ideas from which they had been cut off for more than seven years and were able to acquire some of the most modern medical and scientific text-books. The process of restoring normal intellectual contacts was carried one stage farther by gifts from the United States, Britain, and France to Austrian university libraries.

214 As conditions gradually improved, Austria's own book production revived, until in 1952, judged by the number of new works published, she had become one of the world's half-dozen leading book producers. For some years the revival was held back by a ban on the sale of books and periodicals between Austria and Western Germany, which greatly limited the potential market for books written in German, but this obstacle was finally overcome, and in 1952 representatives of the Austrian and West German book trade made arrangements to hold exhibitions in each other's territory.

517 The position of music, the theatre, and the arts in Austria is difficult for anyone to understand who has not lived in a country with a past tradition of lavish royal patronage. For the Austrian Republic has inherited the sense of responsibility towards the arts in the widest sense, which was first shown by the most enlightened and discriminating of the Habsburgs and maintained as part of the Imperial dignity by other members of the family.

545 The origins of the State Opera and the Burgtheater go back to the first half of the seventeenth century, when the earliest music dramas were performed in the Hofburg, and to the year 1776, when the Emperor Joseph II decreed that the theatre next to the Hofburg should become the 'German National Theatre'. During the second half of the nineteenth century the two institutions were given the magnificent new homes on the Ring which are still amongst the most impressive of

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XI

Negotiations for a Treaty

727 **B**Y the summer of 1952 Austria had been occupied longer by its 'liberators' than by the Nazis. This state of affairs came about as the result of a long process of delay and disingenuous diplomacy, and there has been a wide-spread tendency throughout the world to take it for granted as an inevitable concomitant of the situation in Germany. But the Austrian people had had every reason to suppose that their country would be in a very different position seven years after the War ended.

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648 By the Moscow Declaration of the 1st of November 1943 the Governments of the United Kingdom, the United States, and Soviet Russia agreed that Austria, as the first free country to fall a victim to Hitler's aggression, should be liberated from German domination, and announced that they wished to see a free and independent Austria re-established. Later in the month the Free French authorities at Algiers concurred with this declaration. At the Potsdam Conference in the summer of 1945 the three Powers also agreed that reparations should not be exacted from Austria. Yet the occupation has continued, and Austrian statesmen have complained with justice that their country has been treated as an ex-enemy rather than as a liberated victim. In fact, the lot of the ex-enemies has, on the whole, been preferable, because by 1952 peace treaties had been concluded with Italy, Hungary, Roumania, Bulgaria, and Japan. In a broadcast statement delivered in January 1952 Dr. Figl expressed himself in the following vivid but unexaggerated terms: 'When a criminal has served his term, he is allowed to go free. It has solemnly been declared, not only that we have committed no crime, but that we have fallen a victim to a criminal. And yet we have been deprived of our liberty.'

727 As has been seen, the Allied occupation has had certain direct

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XIV

Austria Turns West

THE Austrian people are deeply convinced that their true role in Europe is to mediate between East and West. The conviction is based on historical, political, economic, and diplomatic considerations. It has been held and expressed by most of Austria's leading statesmen in the Second Republic. 648

The Habsburg dominions were held together by a policy of conciliation. Vienna, once a Roman frontier fortress and later an outpost of Western Europe against the Turks, could never have become the centre of a cosmopolitan Empire, comprising Germans, Slavs, and Magyars, had the Habsburgs not practised toleration and compromise. Conciliation, which for the rulers was a matter of expediency, serving a strictly dynastic purpose, was adopted by their subjects as a habit and an ideal. The Austrian people's belief in it was intensified by events between the two World Wars, when uncompromising nationalism led to world disaster.

Austrians have a strong sense of history and tradition. Their main cultural links are with the West, but they have never lost their sense of affinity with the Succession States and their desire to remain on friendly terms with them.

History, according to Anton Wildgans, has taught Austrians 'service to an idea', and he had in mind the supranational and universal idea. Both the main political parties in Austria today serve great ideas and advocate a mediatory and conciliatory role for their country in international relations. The People's Party, though non-confessional in principle, is strongly influenced by Catholic universalism and the Habsburg cosmopolitan tradition. The Socialists, while rejecting Communism, still believe in the international character of their movement.

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From the economic point of view Austria needs the markets and supplies provided by her natural trading partners in Eastern Europe. She produces goods which they cannot easily obtain elsewhere, and they are a source of some of the fuel and food that she herself requires. Under normal conditions Polish and Czechoslovakian coal would be a natural exchange for the Austrian oil and oil-products that are now being confiscated by the Russians. The low cost of transport in trade between neighbours is an important consideration.

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Diplomatically Austria is best suited to be a conciliator. Her size and exposed position both point to the same conclusion. The weight she could add to either side would not be sufficient to prevent hostilities. In any war between East and West she would be one of the first to suffer.

These considerations are appreciated by every Austrian statesman. One of the most striking speeches on the subject was made by President Renner shortly before his death. On the 23rd of October 1950, in an address to the Youth Section of the Austrian League for the United Nations League he said: 'More than any other European the Austrian can understand the peoples of Eastern Europe to whom he has been closely linked by many centuries of economic, intellectual, and social relations. It is the responsibility of Austrian youth to see that this advantage is used in the service of ourselves and of the whole of Europe.' President Körner expressed his convictions in actions as well as words. While Mayor of Vienna he accepted an invitation to Russia to attend the celebration of Moscow's 800th anniversary in September 1947, though he went as the city's representative, not as a private individual.

In spite of the intense disappointment caused in Austria by the Soviet attitude and policy since the War, for about five years the Austrian Government showed great patience and reluctance to take sides. Public complaints against the Soviet Element were usually expressed in general terms that might apply to any of the occupying Powers. A clear proof of the Government's point of view was its willingness in 1949 to

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make sweeping concessions to Russia in order to obtain a State Treaty by common consent. 648 •

The change that eventually occurred in the Austrian attitude was the result of Soviet policy in Austria and the developments in Eastern Europe and the West.

As has been seen, Russia's planned exploitation of the Austrian economy grew steadily worse as the years went by, and culminated in the establishment of USIA retail shops and the ruthless stepping-up of oil production. Soviet political pressure and interference showed no signs of being modified after five years of occupation. The Communist action in the autumn of 1950 was based on Soviet encouragement and support.

No less significant were the developments in the international situation. The suppression of democratic freedom and national independence in the countries of Eastern Europe had a decisive effect on Austrian opinion. Between 1945 and 1949, Poland, Roumania, Czechoslovakia, and Hungary succumbed one after another to the Communist technique. Communist minorities were converted by trickery, threats, and terror into Communist Governments dominated by Russia, and diplomatic and trading relations with Austria became increasingly difficult. The greatest shock was the Communist *Putsch* in Prague of February 1948. Czechoslovakia's desire to maintain good relations with both Russia and the West was beyond doubt. After her treatment at Munich she turned naturally to the Soviet Union for diplomatic support, but the Czech people retained their admiration for Western culture and their belief in Western democracy. The events of February 1948 proved that a small country could carry conciliation and impartiality too far, when the Soviet Union was one of the parties. For the second time within a decade, at tragic cost to herself, Czechoslovakia served as the touchstone of a dictator's intentions.

These events, in addition to their direct impact on the Austrian people, provoked strong reactions amongst the Western Powers, which in their turn influenced Austria.

648 The subjugation of Eastern Europe and Russia's rejection of the Marshall Plan convinced the nations of the West that defensive measures were necessary. With the Brussels Treaty of March 1948 the Western Union idea took definite shape, and a year later the North Atlantic Treaty followed. The division of Europe into two rival groups was an unintended consequence of the Marshall offer. The rivalry was emphasized by the two defensive alliances.

Austrian statesmen have stated repeatedly that their country has no intention of joining a military alliance either before or after the State Treaty is signed. Before the treaty such action would endanger Austria's unity. After the treaty she would prefer to pursue her own policy of neutrality and conciliation. Yet since 1948 it has been increasingly difficult for the Austrian Government to sustain its attempt at impartiality. Russia's attitude towards Marshall Aid first drove Austria into association with the West, and subsequent events have emphasized the alignment.

As Dr. Renner put it, psychologically Austria has been won for the Western Allies. Her statesmen have been increasingly firm in maintaining their country's right and increasingly frank in voicing their resentment and their gratitude. In many different ways the Austrian people have given expression to their sympathy for Western ideals and the Western way of life. Only a small minority made up of Communists and their associates in the People's Opposition opposed the general trend.

Austria's new attitude has been reflected in the frequent visits of Austrian statesmen to the West and of Western statesmen to Austria. During the early post-War years occasional visits were made, but since 1950 there has been a marked and significant increase in the interchange. In that year Dr. Gruber made an extended tour of the United States, lecturing on Austria's political and economic problems. During 1951 and 1952 the Chancellor and four Austrian Ministers went to London, and visits to the United States were paid by the Chancellor, the Vice-Chancellor, the Ministers of Foreign Affairs, Finance, Trade, and Justice, the Mayor of Vienna, the

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• 648 General Secretary of the People's Party, and strong delegations of Austrian Members of Parliament and business-men. In the other direction during the same period Mr. Herbert Morrison, Mr. Dean Acheson, Mr. Anthony Eden, and two groups of American Congressmen paid visits to Vienna.

The culmination of the series was the tour made by Dr. Figl in the spring of 1952 to England, the United States, and France. This symbolized better than any other event Austria's turn towards the West. The Chancellor himself explained that he welcomed the invitations of the three Western Powers because they provided an opportunity for a demonstration of unusual significance for Austria. His State visits to London, Washington, and Paris enabled the Western Governments to show that, though they had not been able to restore Austrian sovereignty by treaty, they wished to recognize Austria as a free State entitled to equality of treatment. The Chancellor was received by Queen Elizabeth, President Truman, and President Auriol, and, wherever he went, he was given the recognition due to the Prime Minister of a sovereign State.

Dr. Figl proved himself a worthy representative of his country. In the United States his reputation for grit, tenacity, and common sense had preceded him, and his visit was as popular as well as an official success. He received a warm welcome from the Senate, a medal of honour from New York City, and a favourable notice from the *Chicago Tribune*. In all three countries he won sympathy and understanding for Austria and obtained assurances of continued and whole-hearted diplomatic support.

The full significance of the Chancellor's journey became clear when he arrived back in Austria. At the Swiss frontier, and at every place where his train stopped between there and Vienna, he was received by his fellow countrymen with enthusiastic demonstrations of gratitude. Throughout his tour Dr. Figl had conducted himself as the representative of Austria rather than as a party leader, and he was rewarded with an all-party welcome on his return. The Socialist mayor of the preponderantly Socialist town of Attnang-Puchheim received him with

648 the same warmth as places where his own party was in a majority. At the West Station in Vienna thousands of people awaited his arrival, and he was greeted first by Vice-Chancellor Schärff, who handed him a cordial personal note of thanks from President Körner. The Austrian people thus showed their appreciation both of the Chancellor's achievement and of the recognition accorded their country by the Western Powers. This recognition has given them greater courage and self-confidence in the endurance test to which they have been so long subjected and which has not yet come to an end.

Austria, having been compelled to take sides, has left no doubt where her sympathies lie. Yet the decision to turn West was reluctantly made. Most thinking Austrians, taking a long view and seeing their country's future against the broad background of its past history, still believe that Austria's true destiny is to maintain links both with the East and with the West. The political and economic considerations that have been decisive in the past are still valid to-day. Western countries would be reluctant to give up hope that one day the Soviet régime will be modified and Eastern Europe freed. With Austrians this hope includes the opportunity of renewing neighbourly intercourse. Their capacity to forget and forgive has been illustrated recently by their attitude towards Yugoslavia. In spite of Yugoslavia's provocative post-War claims against Austria, excellent relations between the two countries have been re-established following Tito's breach with Russia. The Yugoslav Permanent Under-Secretary of State for Foreign Affairs was able to say, in the autumn of 1951, that no Yugoslav minorities in foreign countries were so well treated as the Slovenes in Carinthia.

Austrians are thus hoping for the day when they can resume their traditional role. In 1951 Dr. Gleissner expressed his countrymen's views when he spoke in the following words: 'It is the will of her people that Austria should issue not challenges but invitations, should be a meeting point not a dividing line, nobody's bastion but everybody's bridge.'

During his visit to the United States, Dr. Figl stated publicly

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that he would willingly travel to Moscow, too, if he received an invitation. He was asked in Austria later if he did not consider that a visit to Moscow would alienate American opinion. He replied without hesitation that an invitation to Moscow would have to come from Stalin himself, that such an invitation would imply a new Soviet attitude towards Austria, and would be followed by a State Treaty. In these circumstances he felt sure that the Americans would appreciate the reasons for the visit. To a remarkable extent Dr. Figl himself had managed to combine dogged insistence on his country's rights with good personal relations with the Russians. In this mixture of obstinacy and patience he was the heir of the Habsburgs. He was also the true representative of the Austrian people.

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State, when once their independence had been restored. If Austria's hopes of solvency were well-founded in 1937, the development of her oil-fields and hydro-electric power since then have placed their realization beyond all doubt, provided she is free to manage her own affairs. 433

Like the Nazi aggression before 1938 and the German occupation that followed, Russia's economic and political obstruction since the War has stimulated Austrian patriotism. Austria's courage and patience under great provocation, her Government's correct attitude towards the Soviet authorities, combined with insistence on its rights, have won general admiration. So her greatest disappointment since the War has, from the long-term point of view, been turned to her advantage, and has played its part in the harsh process by which the Republic has been welded into a unit. 186

Above all, the Coalition Government's record has had a decisive influence. Its problems have been exacting, in some cases insoluble, and it has been a difficult team to manage. Yet on the whole, in face of great difficulties, it can claim to have been one of the most stable and successful governments in post-War Europe. The contrast between political life in the First and Second Austrian Republics could scarcely be more marked. In the one case there was bitter rivalry, mutual intolerance, and frequent changes of government; in the other case co-operation, continuity, and a readiness to compromise for the common good. In eight years Austria has made great progress towards democratic maturity, and the lessons of the inter-War years have been well learned. 642

But their newly developed patriotism and self-confidence have left Austrians under no illusions. They are aware of their limitations, and they realize that political nationalism is out of date. The American journalist who described Dr. Figl as the successor of Don John of Austria, the last knight of Europe, who turned back the Turks in 1571, was read with a smile in Vienna. Austrians think that their main contribution to the world will always be cultural rather than political and will be based on the spirit, the intellect, and the preservation of 648

648 valuable and unique traditions. Diplomatic entanglements and power politics are inappropriate for a country of 7 million inhabitants in a highly vulnerable position. The political aim of Austrian statesmen is to justify Austria's independent existence by maintaining a healthy economy and social order and by setting an example of good world-citizenship.

Austrians believe that their country's best hope for the future will be as part of some effective international order. Their political leaders have stressed this point repeatedly since the Second World War, just as they have been the consistent champions of Austria's mediatory and conciliatory role.

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648 No one has had a greater influence on the development of the Second Republic than Dr. Karl Renner, who was a convinced internationalist of long standing. Before 1914 he had advocated a federation of self-governing nations under the Habsburgs, and considered that the dissolution of the Empire would mean the triumph of reactionary nationalism. The future belonged, in his view, not to the nation State but to the supra-national State comprised of antonomous units. In accordance with his general outlook he described Austria on his return from St. Germain to Vienna in 1919 as 'an autonomous province of the League of Nations' which relied on the League as the guarantor of its independence. In a speech during the opening session of the National Assembly, on the 19th of December 1945, and again on his eightieth birthday, Dr. Renner expressed his faith in the idea of the United Nations. In 1948, he wrote: 'The forces which make history move towards a world economy and a world State, and in this direction Austria is glad to go.'

Dr. Renner had considerable influence on the politicians with whom he worked during the last years of his life. His sentiments towards the Habsburg Empire were echoed by the Socialist, Dr. Koref, who said in Parliament in 1952: 'The Austrian people are predestined to take part in international understanding because they have within them the heritage of a small version of the United Nations.' Dr. Figl repeatedly declared his belief in an international order.

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But the Austrian attitude on the subject cannot be attributed to the influence and example of any individual. It lay in the logic of Austria's position as a small and defenceless State that her people should pin their hopes on the support and guarantees provided by a world organization such as the United Nations. As far back as 1922 Monsignor Seipel had accepted the help and financial supervision of the League of Nations. In April 1946 the Austrian Government was invited to send representatives to the last meeting of the League as observers, and the President of the Assembly spoke of Austria as 'one of the most solid pillars of our organization' and referred to the specially active part she had taken in all the League's work.

Austria's belief in international co-operation has been revealed in a number of ways: through her support of specific projects with limited aims, her interest in European unity, and her enthusiasm for the United Nations and the work of the Specialized Agencies.

The full utilization of Austria's hydro-electric resources would only be possible on an international basis, as their potentialities greatly exceed her maximum needs, and there would be no point in her investing in projects beyond her own requirements, without international arrangements guaranteeing consumption. In December 1952 a meeting took place at Innsbruck between representatives of Austria, Germany, France, and Italy. It led to the establishment of an International Power Survey Company for co-ordinating hydro-electric developments in Austria with those of the three other countries.

Another project in which Austria has shown great interest is the plan for a Rhine-Main-Danube Canal, which would link the North Sea with the Black Sea. It involves improving the navigability of the Main and the construction of a canal from Bamberg on the Main to Regensburg on the Danube. The economic and political implications of the plan are considerable, and its immediate advantages for Austria obvious. At present her overseas exports are shipped from Trieste or the

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312 German North Sea ports, and in either case the railway freight charges add substantially to the cost of transport. The opening up of a water-way to the sea would be of the greatest value.

648 Austria's participation in such plans as these is due mainly to her needs and natural endowments as a land-locked Alpine country. To a large extent her interest in all international movements is the result of her size and situation. Yet Austria's internationalism cannot be attributed solely to material factors. The warmth and spontaneity of her people's response reflect their temperament, their humanity, and their political and religious convictions.

The Austrian attitude towards European unity has never been in doubt. In October 1945, before the European movement had been fully launched by Churchill's great speeches at Brussels, The Hague, and Zürich, Leopold Figl, who was not yet Chancellor, wrote of Austria as a 'germ-cell' in the reconstruction of the European community of peoples. In one of his first speeches to the National Assembly the following December he spoke of the vital importance of instilling into the rising generation of Austrians an 'all-European democratic way of thought'. Austria was subsequently represented at the Congress of Europe at the Hague in 1948 and at meetings of the European Parliamentary Union. Members of the Austrian Parliament have also attended meetings of the Consultative Assembly of the Council of Europe as observers since the autumn of 1951, and have taken part in its committee work. The only reason Austria has not become an official member of the Council is that her Government felt it inadvisable to take such a step, so long as the occupation continued.

One indication of the importance attached by Austria to friendly relations with other countries has been the many goodwill visits abroad undertaken by leading statesmen since the end of the War. Dr. Gruber himself has been a tireless traveller. There has also been a rapid development in the Austrian foreign service since the Allied Council permitted the exchange of diplomatic representatives early in 1946. Within a few years the size of the service as a whole and the number of

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embassies and legations established in foreign countries exceeded the pre-War level. 648

In the summer of 1947 Austria made formal application for membership of the United Nations, but its request was vetoed by Russia in the Security Council. The General Assembly decided by a large majority that Austria was qualified for membership, and the matter came up again before the Security Council. But this and later attempts to reverse the previous decision were all frustrated owing to Russian opposition. Recently the Austrian Government has declared itself in favour of the Russian proposal for the *en bloc* acceptance into the United Nations of non-member States sponsored by Russia and the West.

In spite of their disappointment, the Austrian Government and people have given their full support and co-operation to the United Nations as a non-member State. Russia was not in a position to prevent Austria joining the Specialized Agencies, and by 1952 she had become a member of all the Agencies except one. She has taken part in the Technical Aid programme to backward and undeveloped countries and has sent medical supplies to Korea. In the summer of 1952 the Austrian Parliament approved unanimously a declaration that Austria was prepared to fulfil conscientiously all its obligations under the Charter of the United Nations from the day on which it became a member of that organization. The appeal to the United Nations, later in the year, regarding the delay in obtaining a State Treaty, was in itself an expression of faith.

While they were in New York, Dr. Figl and Dr. Schärff both visited the United Nations headquarters. In July 1952 Mr. Trygve Lie himself went to Vienna. It was the first official visit of the Secretary General of the United Nations to a non-member country. In an address to a joint session of the Austrian Parliament Mr. Lie emphasized this fact, and expressed his thanks to the entire Austrian nation for having always acted politically both at home and abroad, as if they were already a member of the United Nations. The suggestion put forward in January 1953 by Mr. Walter Lippmann that Vienna might

648 make a better headquarters for the United Nations than New York was received in Austria with gratification.

There is probably no country in the world where greater efforts are made than in Austria to impress the United Nations idea on the whole people through the schools, the universities, and well-thought-out publicity. The Austrian League for the United Nations is a highly organized and active body, supported by the country's political and intellectual leaders. Every year the League arranges a United Nations Week, in which prominent statesmen take part. The Minister of Education has ordered that the anniversary of the Declaration of Human Rights should be celebrated in schools throughout the country.

Austria's belief in internationalism has superseded the desire for a voluntary *Anschluss* with Germany that prevailed after the First World War. In a New Year's Message soon after he became President, Dr. Renner said, after referring to experiences with the Italians and the Germans between the Wars: 'From these experiences the Austrian people in 1945 finally drew the only possible conclusion: self-reliance and independence; no *Anschluss* at all, neither with the East nor the South, neither with the West nor the North; one thing only is desirable, entrance into the community of the United Nations.' This change did not mean that Austrians lost pride in their German cultural heritage, but it did mean that they became increasingly conscious that the German culture of which they were proud could be traced back to an age when the Austrians, not the Prussians, set the tone and determined the character of the German contribution to European civilization. During the past few years Austria's relations with Western Germany have steadily improved. Western Germany has become her most important trading partner. In January 1953 Dr. Gruber accepted an invitation from Dr. Adenauer to visit Bonn the following March. But it is clear that Austrian statesmen envisage a friendly relationship with Western Germany based on common membership of a European political community. Mr. Walter Donnelly, the United States

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High Commissioner in Austria, made a constructive contribution in 1952, when he suggested that relations between Germany and Austria should be comparable to those between the United States and Canada. 648 •

Western Germany is already much farther along the road to freedom than Austria. If Austrian independence is held up for too long, there is a danger that the Austrian people, through sheer desperation, will again be attracted by the strength and success of a great kindred people. Dr. Figl pointed out this danger to Western statesmen during his visit to the United States, Britain, and France in 1952, and in this connexion obtained their assurances that the Austrian question would not be forgotten. Soviet leaders, who threw away the good will and admiration of the West so quickly and needlessly after the War, would do well to consider the long-term consequences of their obstructive policy towards Austria.

If Austria is inclined to stake her future on the success of mankind's efforts to establish a world order, the question arises as to what contribution this small State can itself make to such an order. 000 •

There is a growing and dangerous tendency at the present time to over-simplify the international issues with which the world is faced. Complex human problems, whether large or small, urgent or less urgent, are judged largely by the extent to which they are considered relevant to the main conflict between Communist Russia and the free West. This tendency results from a state of mind which is the counterpart in international thought of totalitarianism in political thought. Just as the demands and disappointments of the democratic system have driven men to accept the panaceas offered by Marx and Hitler, so have the intricacy and gloom of world politics led well-meaning and civilized people into the crude and perilous error of over-simplifying international problems.

Yet a world order can only be established on a democratic basis; that is to say, under a complicated system in which every individual counts and every individual is expected to make a contribution. Under the American constitution the

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[For an account of the unsuccessful efforts, from 1946 to 1952, of the four occupying powers to negotiate a State Treaty for Austria, see category 116, pp. 189-202.]

In addition the Institute had been entrusted with a number of tasks by public institutions or by agencies working for public interests. The Federal Chancellery, Central Office for ERP Affairs, entrusted to the Institute the preparation of reports and the expression of opinions as well as other tasks, while the Central Office itself, in accordance with Article VI, paragraph 2, and Article VII, paragraph 4, of the bilateral agreement between the United States of America and Austria of July 2, 1948, prepared the quarterly economic reports, outlining results achieved with ERP means and the economic measures undertaken. The Austrian Investment Program of 1950-1952 has been designed in collaboration with the Institute. 204
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A close cooperation exists between the Institute and the "Oesterreichisches Produktivitätszentrum" (OPZ) (Austrian Productivity Center), Vienna. The Zentrum was created by a ministerial decision of March 6, 1950. Dr. Taucher, Chief of the Federal Chancellery, Central Office for ERP Affairs, serves as president. Dr. Nemschak acts as manager. Within the scope of this cooperation a number of problems were investigated: the scarcity of vocational employment for youth and combating it; the Austrian paper industry; the processing of Austrian foreign trade transactions; the Viennese housing requirements and its future development; opinion studies of managers, engineers, foremen, and employees relative to production increases; possibilities of increased yield from the tourist trade through elimination of seasonal trends; cooperation in the designing of rules permitting the ascertainment of production index numbers of cotton textile mills relative to a coordination of the averages with upper and lower margins. Shortly released will be: structural analysis of the Austrian textile industry; analysis of the employment possibilities and causes of unemployment in the catering trade; preparation of a memorandum about the effects of a prolonged scarcity of imported raw materials upon Austrian production and employment situation; the Austrian railroad-trucking problems; the development of productivity since the end of the war; extension of a wage and earning index in collaboration with the Bundeskammer der gewerblichen Wirtschaft; comparison of the living cost indexes of various countries; development of raw material consumption, investment activity and turnover; improvement of living costs and wage index calculations for which additional statistical investigations are necessary. The Austrian Productivity Center published monthly a pamphlet Der Schlüssel (The Key), intended to foster within an extended circle of readers understanding of production step-ups and exchange of technical experiences. [647]
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II. ECONOMIC-POLITICAL ISSUES: ANALYSIS AND SOLUTION

The first part of this survey was intended /2/ to acquaint the reader with a review of opinions, thoughts and trends of the scientific economic works and to furnish him with a cross-section of past and present publications which influence the intellectual profile of contemporary Austria since 1945. The second part shall acquaint the reader with Austria's many economic problems and the important aspects of Austrian economic policy, thus pointing up the expert's ideas and considerations which are at the basis of measures enacted. This will make it possible to get an over-all view of the reciprocal action between the ERP and the various economic sectors within the framework of a national economic balance.

A. The Political and Economic Reestablishment of the Second Austrian Republic. Problems of Austrian Reconstruction.

1. The Political and Economic Reestablishment of the Second Austrian Republic. 646
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During the Second World War, particularly during the repeated meetings of leading political and military leaders, principles were laid down upon which the postwar political and economic reconstruction of the world should be based. The first of the pertinent documents was the eight-point declaration of the Atlantic Charter of August 14, 1941, by President Roosevelt and Prime Minister Churchill. Both expressed the desire to reinstate sovereign rights and autonomous government in all countries that had become victims of aggression. The second basic document of this type was President Roosevelt's New Year's Message (January 6, 1942), concerning the Declaration of the United Nations at Washington, D. C., on January 1, 1942, based upon the principles of the Atlantic Charter. However, of importance to the constitutional reestablishment of Austria, was to be the solemn declaration of the governments of the United Kingdom, the Soviet Union and the United States during the Moscow Conference of Foreign Ministers (October, 1943), providing that one of the aims of this reorientation was that Austria, the first free country to become a victim of Hitler's aggression, must be freed from German rule. The great powers considered the forced annexation of Austria by Germany

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728 on March 15, 1938, as null and void and further expressed the desire to see a free and reestablished Austria. This accomplishment would enable the Austrian people, as well as neighboring nations confronted with similar problems, to find that political and economic security which is the only foundation of a lasting peace.

The powers augmented this declaration at the Conference of Yalta (Crimea conference of February 4 - 11, 1945) by agreeing to promulgate the reinstatement of sovereign rights as well as self-government for all peoples deprived of such rights by aggressor nations. To implement the practical exercise of these rights, liberated European nations should be assisted in the amelioration of want and need as well as in the creation of a (provisional) governmental authority in which all democratic population elements were to be represented on a broad basis, and which should in turn be required to establish, as soon as possible, a government, chosen by free elections, acting in accordance to the will of the people.

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727 Based upon the repeated declarations of the powers the chairmen of the three political parties proclaimed the Second Republic of Austria on April 27, 1945, immediately after cessation of hostilities in Austria. In accordance with Article I of this proclamation the "democratic Republic of Austria" was reestablished and to be organized similarly to the constitution of 1920. Article II provided that the annexation forced upon the Austrian people in 1938 was to be considered as null and void. Therewith Austria joined again the family of European nations.

The first legislative acts of the provisional government concerned the framework of the constitution, the reestablishment of the legal system and the appointment of authorities. On the strength of the "Verfassungsüberleitungsgesetz" (*i.e.*, the law to reestablish Austrian enactments for German ones), Austria was fundamentally reestablished as a democratic republic, reverting to the provisions of the federal constitution of 1920, as amended in 1929. Simultaneously a provisional constitution was agreed upon which regulated the government. In essential stipulations it conformed with the constitutional law of 1929. The "Behördenüberleitungsgesetz" (*i.e.*, the law to reestablish Austrian authorities) was enacted to establish a new Austrian authoritative apparatus. It stipulated the definitive substitution of administrative and judicial instruments of the German Reich by

642 On December 3, 1945, a committee of the political parties entrusted Secretary of State Figl with the formation of a government, which the Allied Commission approved on December 18, 1945. On December 20, 1945, a session of the Federal Assembly (Nationalrat and Bundesrat) with a vote of 204 out of 205 elected Dr. Karl Renner to the presidency. He accepted the office for the term of six years.

642 The new federal government as well as the
646 presidency were recognized by notes of the various powers although these notes showed deviations in texts. Thus the first phase of the constitutional reestablishment of the Second Austrian Republic was concluded. The federal government could proceed with the task of solving the most important economic problems.

2. The Situation after the Cessation of Hostilities and the First Economic Reorganization Measures, 1945-1947.

727 The reestablished Second Austrian Republic faced a great economic task. The losses and damages from the war destroyed almost a quarter of the total national capital which had amounted to about 38 billion schillings.

[362] In Vienna alone, 37,000 apartments were completely destroyed and 50,000 partly destroyed, while 25,000 were less severely damaged. Aside from extensive destruction of raw materials was the loss of machinery through dismantlements, especially in the eastern part of the country after 1945, which caused deficiencies in extremely valuable production material amounting to at least 1.2 billion RM (at prices fixed as of 1940). Plants of the electric, vehicle, machine, iron and metal industries, and steel mills lost more than 46,000 machines. This meant that in some instances, the combined loss of the war and postwar period amounted to 80 percent of the machines and equipment. These deficiencies were all the more burdensome since the destruction and the removal of the production means led unavoidably to severe disturbances in the general economic scheme.

[62] Austria also suffered substantial losses in human lives. Out of a population of 7,000,000, the number of dead or missing totalled 350,000 and the wounded 170,000. These losses were mainly from the ranks of the able-bodied age groups (13 percent).

458 originally anticipated, due to the prolonged interval
652 between the publication and the enforcement of the
law, the following months nevertheless did produce
some economic results (lowering of prices, elimina-
tion of black markets and a general slackening of the
purchasing psychosis).

727 In the meantime the occupation powers,
648 particularly the American and the British elements,
457 had introduced relief measures ameliorating need and
want among the Austrian population. One of the first
was initiated by UNWRA, whereby, in connection with
a number of special credits, a "subsistence level"
was achieved. Additional assistance measures followed.
On June 25, 1947, an agreement between the United
States and Austria provided a new form of assistance,
substituting for the UNWRA aid which was ending. For
this "Austria Assistance" about 85 million dollars
were provided. With these contributions of foodstuffs,
commodities and machines, it was possible to start
the reconstruction of the ruined communication system
and to restore a modest production line.

Additional alleviation was obtained from a
credit granted by the British Government for purchase
of consumer goods. In October 1947, the Export Import
Bank at Washington, D. C., granted Austria a credit
amounting to 13 million dollars, of which amount 8
million dollars were placed at the disposal of the
heavy and metal industry, 4 million dollars at the dis-
posal of the chemical industry for purchases of raw
materials and as equipment, while the remaining 1
million dollars served other purposes (freights, etc.).

652 Of particular importance was the establishment
727 of a regular budget. The first federal estimates
(1946-1947) were, in view of conditions, only of an
emergency nature.

The item of occupation costs was from the start
a rather burdensome one. Until May 1946 these costs
were covered by an additional issuance of bank notes.
Beginning June 1946, all expenditures not covered by
current incomes (including occupation costs as well as
costs arising in connection with the welfare of dis-
placed persons) were paid for with short-term treasury
bonds, taken by banks, or with cash reserves. Later
751 (July 1948) the expenditures of the occupation costs were
met fiscally by an additional tax (occupation cost tax)
to the income and wage tax.

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453 Closely connected with the procurement of capital is the problem of liquidity upon which, internationally, the repute of a banking organization rests. Therefore, considerations about reconstruction measures will have to include the problems covering the organic cohesion of public and private credit extensions and also currency essentials.

The problematical scope of the entire reorganization of Austrian credit institutions is an extended one containing, besides questions of the budget and currency problem, the problem of capital procurement. In addition to the tax-exempting provisions, it will be necessary to effect certain changes in corporation law. The credit institutions, especially the banks, progressively liquidating relics of a past era, will eventually reestablish their previous traditional business relations with the world's financial centers in the interest of Austrian economy and by doing so, as agents for a progressive productivity, provide the necessary means. The purpose of the entire reconstruction, last but not least, strives towards an increase of the national income.

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457 B. Marshall Plan Assistance as the Material Basis of the Austrian Economic Policy.

1. The Legal Foundations of Marshall Plan Assistance.

a) Austria's position prior to Marshall Plan aid.

[433] The first two years following the establishment of the Second Austrian Republic permitted arranging a basis for the progressive development of the economy. However, the country's position remained precarious due to insufficient agricultural and industrial output. Domestic agriculture at that time provided only 36 per cent of the "subsistence level" needed to feed the population not engaged in agriculture. Industry, which prior to the war achieved export excesses, was unable to finance its raw material requirements. This caused a need for imports, primarily of food and mineral fuels, which caused a deficit in the payment balance amounting to 2 billion schillings.

However, this deficit was entirely covered by relief shipments and credits. Below is a breakdown of the most important deliveries and credits received during 1947:

UNRRA Shipments (ended July, 1947)	447 Million Schillings	648 457
USA Congressional Aid (second half, 1947)	501 Million Schillings	
USA War Department	338 Million Schillings	
USA War Surplus Assets	151 Million Schillings	
USA Surplus Credit	60 Million Schillings	
British 10,000,000 Pound-Sterling Credit	219 Million Schillings	
British War Surplus Assets	160 Million Schillings	
Private Charitable Organizations	130 Million Schillings	
<u>Total</u>	<u>2,006 Million Schillings</u>	

For Europe the turning point came during the summer months of 1947. On June 5, 1947, the American Secretary of State, Marshall, in a speech at Harvard University, sketched a program for the economic reconstruction of the European area, following the ideas recommended by the late President Roosevelt in a message to Congress promoting the well-known four principles of freedom. This program was to replace the various individual assistance actions of the early postwar years by an economic reconstruction program based on the idea of self-help and intercontinental cooperation. Accepting an invitation of the foreign ministers of Great Britain and France, 16 representatives from 22 invited nations, including Austria, attended the European Conference in Paris from July 12 to September 23, 1947. There the principles of European cooperation (ERP) were promulgated.

The initiation of ERP, originally set for April 1, 1948, had to be postponed for technical reasons to July 1, 1948. Meanwhile, the precarious Austrian situation required the granting of interim assistance.

On January 2, 1948, the United States of America and the Republic of Austria signed an "interim agreement" which provided the extension of funds and raw materials amounting to \$57,000,000. Shipments from

648 the USA included: 45,000 tons of grain, 3,000 tons
457 of edible fats, 5,000 tons of sugar, and 200,000 tons
of other essentials. To cover the period up to July
1, 1948, Austria received an additional amount of
\$70,000,000 in interim aid.

- b) The inception of the Marshall Plan and its terms.

The second Paris Conference of the European nations participating in the reconstruction program (ERP) took place on March 15 and 16, 1948, while a third conference followed on April 16, 1948. At the latter the organization for cooperation was initiated and implemented by the signing of a covenant and additional protocols. The aim of these agreements was the achievement of a sound, stable and independent economy by 1952. Article IV of the Paris covenant for cooperation on April 16, 1948, also contains provisions for mutual endeavors to create principles of payment which were to lead to a free (multilateral) clearing system. These endeavors led to the signing of a limited compensation and payment agreement (October 16, 1948) effective October 1, 1948 to June 30, 1948. It was later extended to June 30, 1950.

The ERP program for the 16 nations which signed the Paris covenant of April 16, 1948 (plus the German Tri-Zone represented by the military commanders and the Free Territory of Trieste), began on July 1, 1948, in accordance with the stipulations of the "Foreign Aid Act of 1948" adopted on April 3, 1948 (Public Law 472, 80th Congress, 2nd session, chapter 169, p. 2002). The assistance itself depended upon bilateral economic agreements between the USA and the participating countries (for Austria by the agreement of July 2, 1948).

[652] With the signing of this covenant the Austrian government (like all participating countries) obligated itself to increase, within the scope of Austria's possibilities, her industrial and agricultural production and to submit proposals relative to the implementation of projects to be executed under the provided assistance program. The government was further required to enact measures stabilizing the currency and balancing the budget and to cooperate with the participating countries in achieving an elimination of barriers to interstate trade.

457 These means were expended as follows: after
437 deductions for foodstuffs (direct aid: \$68,000,000,
drawing rights: \$2,710,000), for agriculture
(\$14,390,000, drawing rights \$7,300,000) and for
tobacco (direct aid: \$2,500,000), there remained for
the industrial economy funds amounting to \$66,260,000
out of the direct aid and \$75,190,000 out of the in-
direct aid (total of \$141,450,000).

457 Of this remaining total of \$141,450,000,
648 \$82,300,000 covered coal imports, of which \$43,400,000
(or more than 50 per cent) were financed under drawing
rights; \$2,250,000 were taken from direct aid for a
corner transaction to get coal from Poland. Imports
of hides amounted to \$11,300,000 (\$4,000,000 were
financed by direct aid allotments and \$1,400,000 under
drawing rights). Of these imports almost 50 per cent
were financed with ERP funds.

For imports of raw materials and semi-finished
goods (excluding coal), approximately \$182,000,000 were
set aside in the payment balance 1949-1950. ERP grants
amounting to \$55,000,000 covered 30 per cent of these
imports. Including imports of coal, the percentage
amounted to 38 per cent.

Of great importance were the imports in the
investment sector. During the first year of the Mar-
shall Plan only \$12,000,000 (or less than 4 per cent of
the allotted amount of \$283,600,000) was provided for
investment purposes. (During this period the need for
foodstuffs was still great and represented 44 per cent
of the total allotment.) The second Marshall Plan year,
however, brought about an increase to more than 16 per
cent, i.e., to \$40,450,000 (direct aid: \$31,600,000;
drawing rights: \$8,850,000) despite a reduction of 11
per cent in the total allotment (\$252,200,000).

2. The Financing of the Reconstruction.

a) Counterparts and their use.

648 According to Article IV of the bilateral
652 agreement between the United States and Austria of July
457 2, 1948, covering economic cooperation, schilling pro-
ceeds derived from domestic sale of imported Marshall
Plan goods must be deposited with the Austrian National
Bank in a special account (in favor of the Federal
Ministry of Finance). The government has utilization of these
funds only with the approval of the ECA in Washington.
In accordance with the Foreign Aid Act, No. 472 of the

80th Congress, such counterpart funds, however, can be released only for purposes of currency stabilizations or promotion of investments.

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The development of the special counterpart accounts, as a result of payments for ERP shipments, up to December 31, 1950, is tabulated as follows. [Not to be confused with special accounts established prior to the Marshall Plan assistance (Congressional Aid, British credit, etc.) which are classified as non-ECA accounts.]

	<u>Million Schillings</u>
I. To special account as per ECA instructions (counterpart value of ECA shipments).	8,140.8
II. Processing results (proceeds account of the Federal Ministry of Finance deposited with the Austrian National Bank).	
a) Proceeds of sales	6,035.1
b) Price-gap and time-lag, covered by treasury bonds of the government	<u>2,105.7</u>
Total of II	8,140.8
III. Charged to proceeds account (II)	
a) Released for monetary purposes	775.0
b) Released for the financing of the Austrian investment program	3,536.5
c) Other releases	49.9
d) 5 per cent reserved for U. S.	<u>368.2</u>
Total of III	4,729.6
IV. Balance of the proceeds account (I minus III--including price-gap and time-lag).	3,411.2

Not included in these figures are the U. S. assistance actions for the period July 1, 1947-December 31, 1947 as follows:

(52) totaled only 454 million schillings. In accordance [43] with the original "Release Program" it should have amounted to 800 million schillings to neutralize other money-increasing factors. The minus-difference is based on the fact that the anticipated decrease of the price-gap subsidies was delayed, as a consequence of changes in world markets, in order to avoid too sudden changes in the price and wage structures.

[457]

To summarize: in spite of and mindful of the world-wide economic fluctuations affecting her economy, Austria is carrying out reconstruction within the scope provided by ERP facilities. Aside from scheduled reductions any decrease in the real value of this assistance makes the accomplishment of her programs more difficult (especially the balancing of her balance of payments).

- c) Prices and wages, elimination of subsidies, adjustment of exchange rates, increase of economic productivity.

(52)

● [44]

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With the progressing consolidation, resulting from ERP procedures, the Austrian Federal Government faced a number of problems. Aside from the aspect of the stipulated gradual decrease of foreign aid, these problems gained importance when Austria signed the European Payment Union (EPU) agreement in September 1950. She had entered upon obligations which could be met only if her economic policy was directed towards certain external economic goals (expansion of direct and indirect exports). This required certain measures aimed internally (balancing of prices and wages) as well as externally (adjustment of exchange rates).

The measures to be adopted within the framework of economic relationships had the following points in view.

- 1) Counteract inflationary tendencies according to timely needs;
- 2) Decrease step by step the system of subsidies for essential commodities, like edibles, coal and agricultural products, in order to achieve, besides a budgetary relief, "genuine" prices;
- 3) Bring prices gradually in line with world market levels;
- 4) Establish an equilibrium between prices and wages, in order to guarantee, in relation to prevailing prices of manufactured goods, an equitable

457 created a new situation. As a result of this de-
 652 valuation process, the Federal Government, in November 1949, decreed a reorganization of the foreign exchange market. This was intended to be the first step towards the establishment of a uniform exchange rate system. The official rate of exchange, henceforth called the basic rate, was increased from 10 to 14.40 schillings per 1 U. S. dollar (in accordance with the devaluation of the English Pound Sterling). At the same time a variable premium rate of exchange, presently fixed at 26 schillings to 1 U. S. dollar, was established. Exporters were required to give up 40 per cent of their foreign exchange proceeds at the basic rate. The remainder they could retain for payment of their imports within a period of 60 days or could offer to the Austrian National Bank at the premium rate. Goods to be imported were classified into three groups. Those listed in schedule A were imported at the basic rate of exchange, those listed in schedule B at a mixed rate (21.36) and those appearing in schedule C at the premium rate. Goods imported within the scope of the ERP, commodities to be disposed at prevailing cheaper price levels, were grouped with the mixed rate. Service charges and capital transactions were dealt in at the premium rate.

457 There remained, however, a conspicuous dis-
 435 crepancy in the import exchange rates which introduced
 445 disturbances into the cost-price structure of the eco-
 652 nomy, and these in turn influenced living costs and wages.

● [64] Upon recommendation of the International Monetary Fund, a unification of the exchange rates had been considered at the time the multiple exchange rate system was promulgated, i.e., during November 1949. At the
 [65] same time, and in order to ease budgetary strains, the system of subsidizing essential commodities like food, coal and agricultural necessities (which up to now had been sold at cheaper levels because of the ERP imports or imports financed under the basic rate of exchange) had to be substantially curtailed. Since any increase in the prices of grains and grain products was likely to impair living costs and wages, difficult situations arose. As a result of the changed price and wage relations, certain price and wage adjustments as well as a partial reduction of subsidies (covering sugar, coal and agricultural products) had already been promulgated in 1947, 1948 and 1949. After due consideration between political representatives and economic interests, a fourth price and wage agreement was enacted on September 27, 1950.

Consequently, the Austrian Federal Government in collaboration with the Austrian National Bank decreed, effective October 5, 1950, a uniform rate of exchange for the traffic in goods (with the exception of some food items). This rate was identical to the mixed exchange rate of 31.36 schillings to 1 U. S. dollar. The basic rate of exchange was discontinued. For tourist traffic, traffic in capital and for certain kinds of services, the premium rate of exchange (26 schillings to 1 U. S. dollar) remained in force. Simultaneously, compensation deals in goods were prohibited, excepting a few to avoid losses of foreign trade interests.

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In addition the Austrian National Bank effected, according to newly published bid-rates, a revaluation of its foreign exchange holdings and increased the price of gold to 22,834. schillings per 1 kg fine. Thus, the Nationalbank's holdings of foreign exchange were brought in line with the uniform rate of exchange in force for the traffic in goods while its gold holdings were revaluated as mentioned before. (The revaluation of the gold and foreign exchange holdings brought about a surplus value. Since, in accordance with the Notenbanküberleitungsgesetz, the weekly statement of the Austrian Nationalbank has to contain only gold and foreign exchange holdings necessary as cover, the excess holdings thus derived have been eliminated together with other heretofore not published assets. Meanwhile, until a decision about their employment is found, these excess holdings are accounted transitively.)

A further development, this time upon an international platform, occurred with the signing of the agreement establishing the European Payments Union (EPU) on September 19, 1950, at Paris, within the scope of which Austria received from the ECA an amount of 80 million dollars to cover her trade deficit with other EPU member countries for the period July 1, 1950, to June 30, 1951.

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Although the preceding years had resulted in remarkable economic reconstruction, the Austrian authorities nevertheless, were aware of the fact that a step-up of economic productivity was necessary to come as close as possible to the mark set by the ECA for 1952. In estimating Austria's endeavors one must take into account her heavy losses of national wealth, so that the effect of ERP assistance became visible only in 1950. This makes the balancing of her payments balance within the limits of the ERP program rather doubtful.

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Part of the proposed projects have been completed and remarkable results obtained already. This industry was bolstered greatly by refugees from Czechoslovakia.

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Within the scope of the investment programs [62] 100 million schillings were allotted in 1950 to the erection of general dwelling units. In addition to a sum of 11 million schillings provided out of public funds, 34 million schillings were allocated for erection of workers' dwelling units. (The proposed amount in the three year period for workers' dwelling units was 85 million schillings.)

e) Investments for agriculture and forestry.

Damages caused by the war to this important source of supply (through exhausting the soil, lack of fertilizers and pest control, overcutting, etc.) can be restored only gradually. Because of the increased use of tools of production, financed by ERP funds, it was possible to reach a higher gross production value in the years 1948 and 1949. However, it still lagged behind the volume of industrial production which by 1949 had exceeded the prewar level. The higher production in agriculture in 1948 and 1949 made available bigger supplies of foodstuffs for city dwellers and also made it possible to increase the decimated livestock and improve it. Thus, gaps in supplies of milk, meat and fats could be filled in. [241] [62] [231]

These improved results would not have been impossible without the ERP aid. In the first plan-year, Austria had at its disposal a total of 156 million dollars (or 57 per cent of the total amount of the ERP aid) to increase the production in agriculture, small business and industry. A sum of 18.7 million dollars was allotted to agriculture and supplied 139,000 tons of fodder, 189,000 tons of fertilizers, 4,200 tons of seeds, as well as agricultural machinery and veterinary supplies amounting to 1.1 million dollars. In the second year of the plan agriculture and forestry received approximately 25 million dollars for the import of tractors, caterpillars, threshing machines, reapers, motorized plows, disk harrows, replacement parts, milk separators, and machinery for soil treatment (and also to finance means of conveyance and facilities for forestry). [648]

439 In order to make the liberalization fully
457 effective it is necessary to abolish foreign currency
652 restrictions for goods which have been liberalized
and that is where the difficulties arise. Although
the Initial Position in the value of 80 million
dollars granted within the scope of the European Pay-
ments Union supports this effort through a relaxation
in the foreign currency situation, it did not effect
a general solution of these problems. The so-called
dollar problem still exists in a very real sense.

[648] The European Payments Union, of which Aus-
tria is a full member, was put into force on July 1,
1950. It is the logical continuation to the reorgani-
zation of the European Payments system, started by the
OEEC with the "off-shore" and drawing rights system.
Above all, it was to further the lifting of trade
barriers between the ERP countries and to carry out
the principle of non-discrimination, the equal treat-
ment of all parties within ERP Europe.

These measures, however, did not solve the
precarious dollar problem for the ERP countries and
Austria since it was not the aim of the European Pay-
ments Union to promote European exports to the USA
and other hard currency countries outside the ERP.
Also the currencies of the EPU countries are inter-
convertible but not against the dollar. For Europe,
therefore, the dollar remained a very rare and hard-
to-obtain currency.

A certain relaxation was caused by the new
developments in the second half of 1950. The relax-
ation of the dollar shortage was not caused by the
combination of the individual elements: the European
Payments Union, liberalization and integration.
Rather, due to external causes, it was a consequence
of world economic changes which, owing to the conflict
in the Far East, opened new markets of peacetime de-
mands to those countries not directly involved in de-
fense measures. (The dollar shortage is essentially
a special structural problem of world economy, the
causes of which go far back into the war years and are
above all connected with the loss of southeastern
Asia and the establishment of synthetic production
processes in the United States.)

435 3. The tariffs of the public corporations (Federal
655 Railway, Posts, Tramways) as well as the prices for
[651] current were increased from 20 per cent to 100 per
cent to keep pace with the prices on the world market
which had increased due to increases in cost (especial-
ly the price of coal); the trend toward a deficit in
the Federal Railway and public service enterprises
had to be checked. In spite of these considerable in-
creases, these price rises were only three to five
times as high as the level of 1937.

[465] 4. On the basis of the newly calculated producer
and import tax prices, new retailer prices were worked
out; to balance this rise every receiver of gross
wages received an additional income of from 10 per
cent to 12 per cent per month, but at least a minimum
of 140 schillings. For persons in the public service,
special measures were taken on the ground of the so-
called "Gehaltsüberleitungsgesetz."

[651] 5. Finally, in immediate connection with this
agreement a number of taxes and duties were altered:
progression of the taxes on wages and incomes; a change
in the rates of the mineral tax; a change in the con-
tributions of the employers to the balance funds for
charitable relief; a change in the turnover-tax; on
the grounds of the law of adjustment of social insurance
of 1951, the basis of the maximum contributions to
social security were changes.²

[240] The most remarkable progress within the scope
[654] of this agreement, however, was (as already mentioned)
the reduction of subsidies. As is known, the individual
ERP countries obligated themselves in the bilateral
economic agreements (Austrian agreement, August 2,
1948) toward the USA to pay the full value of the Ameri-
can relief deliveries in the currency of the recipient
country on a special account (counterpart accounts).
These accounts should be disposed of by the individual
governments in accordance with the approval of the ECA
to cover, as a rule, the financing of productive in-
vestments and to support currencies. The utilization
of these means for financing for consumer goods should
be limited as far as possible, although this had been
tolerated in the beginning to raise the general standard
of living. The purpose of this limitation was not to
prolong the dependence upon foreign aid which was to end
toward the end of June 1952.

457 With regard to the necessary balancing of
652 the balance of payments (the special measures to achieve

1 [i.e., in July, 1951. Cf. cat. 116, p. 97, for rationale--Analyst
2 [sic, --Analyst]

D. Balance of Payments, Production, Investment.457
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The problem is to carry out economic aims within the framework of inter-state coordination and the solving of certain intra-economic problems (problems of structure and priority). This is a specific Austrian task which must be attained by an increase in the transfer of production, by the rise of productivity, by an alteration of the structure of employment and foreign trade. The latter is a problem of international cooperation and of easing tensions in world politics.

Austria was dependent upon close international cooperation and international help from the start. This was due, for example, to the economic and political burdens such as the loss of a considerable capacity of production, which constituted a heavy drain upon the newly reestablished independent status of Austria achieved in 1945; new currency and credit policy foundations; the creation of an industry adapted to changed world economic conditions, which could be achieved only over a long period and only with the help of foreign aid. The situation of Austria is essentially different from that of western European countries which, at least after the outbreak of the Korean conflict, suffered only one-sidedly by the dollar shortage. Their balance of payments against countries with soft currencies were, on the average, favorable.

The following table shows the development of the Austrian balance of payments during recent years.

E. Foreign Trade.

439 Austria's foreign trade was naturally ef-
457 fected by the outbreak of the Korean crisis. In the
beginning it caused considerable increases for Aus-
trian exports. In the following period, however, im-
port prices rose above export prices creating a dis-
crepancy between the trade balance and the balance of
foreign currencies in the spring of the year. A
number of legal regulations were necessary. Intensifi-
cation of Austrian foreign trade, therefore, becomes
one of the most important economic-political assign-
ments in connection with the end of the Marshall Plan.
(See Monatsberichte for January 1952: "Ausfuhrsteigerung-
erstes wirtschaftspolitisches Gebot." Compare
especially what is said about the abolishing of the
quota, which will not be changed, and about the material
supports to raise the export trade, especially the ex-
tension of exchange business.)

• [648] In the last quarter of the year, a committee
of the EPU in Paris was discussing this problem which
is of paramount importance to Austria. It stressed
the urgent need for further developments in this sector
since Austria shows a permanent deficit account in its
clearing with the EPU. This deficit reached an amount
of 5.4 and 5.5 million dollars in October and November,
respectively, while foreign aid in an amount of approxi-
mately 8 million dollars was allocated for these two
months. The balance must be supplied by the National-
bank out of its own reserves.

457 By means of trade agreements Austria endeavors
648 to extend the scope of its obligations to the European
439 area as well as to overseas areas. (In the following,
explanations are based on: "Die Handels- und Zahlungs-
abkommen Oesterreichs" by Dr. Helmuth Boller, chief of
the Trade Policy Section of the Bundeskammer der gewerb-
lichen Wirtschaft, Vienna.) Certain progress could be
reached. Thus, the lack of trade agreements with the
Iberian peninsula could be corrected by the conclusion
of a commercial agreement with Portugal. Toward Spain
there are only feelers of a trade and political character.
Indonesia joined the ranks of overseas agreement partners.
New trade agreements were reached with Belgium, Luxemborg,
the Netherlands, and Poland to replace former agreements
which had expired. Trade agreements were renewed with
Argentina, Brazil, Denmark, West Germany, France, Italy,
Yugoslavia, Norway, Rumania, Sweden, Czechoslovakia and
Hungary in 1951. As a rule, the formation of the goods

traffic on the basis of hitherto valid agreements were revised and new goods lists for the future worked out. The new agreements are, in general, valid for only one year. Additional payment agreements could be reached with Belgium, Luxembourg, Brazil, the Netherlands, Poland, and Portugal at the same time the commercial negotiations were concluded. (At present there are twenty-three payment agreements.) Payment agreements not connected with commercial agreements now exist with Great Britain, Canada, and Uruguay, and commercial agreements without corresponding payment agreement with India, Ireland, Indonesia, and Pakistan.

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If one groups the concluded commercial agreements according to basic common features, one can see that an extensive adjustment of the regulations to the decisions of the OEEC and the EPU took place in the so-called OEEC countries in 1951. Basically, the principle of Liberalization was stressed in all bilateral commercial agreements with OEEC countries in accord with obligations which result from membership in the OEEC and EPU. The lists drawn up are restricted to goods not covered by the general liberalization.

The paramount importance problems about the supply of raw materials caused a remarkable shift toward fixed promises for deliveries. In many cases the partners not only worked out lists for the import of non-liberalized goods but they added additional lists creating fixed promises for the allocation of export licenses in the form of delivery contingents. Austria uses agreements of this kind in its trade with West Germany, France, Italy, the Netherlands, and Portugal. All these agreements with OEEC countries also have in common the basic renunciation of the principle of compensation and its replacement by the so-called "clearing agreement." In 1951 even the last agreement based on bartering had to cede to this principle. The trade agreement with the Netherlands of December 13, 1947, which represents the type of mixed agreement, was replaced by a new trade agreement of February 5, 1951, which actually adopted the standards of those clearing agreements which were reached with other OEEC countries.

The renewed agreements (not in the framework of OEEC and partly only prolonged former agreements) with Bulgaria, Poland, Rumania, and Czechoslovakia do not show essential changes as compared with the preceding year. On the grounds of merely bilateral basis, the

457 balancing of the bilateral trade balance sometimes
 • 448 causes considerable trouble. The trade agreement
 439 with Yugoslavia was considerably extended by a credit
 for goods to the amount of 10 million dollars which
 Austria granted to that country; the goods have been
 almost totally delivered. The goods credit, starting
 with the year 1952, must be balanced by Yugoslavian
 counter-deliveries. The new discussions about a
 trade agreement with Yugoslavia were begun on January
 7, 1952.

Among the overseas agreements, those with
 Argentina and Brazil contain very interesting new ele-
 ments with regard to the techniques of agreements.
 Thus, for instance, the listing of the items of Aus-
 tria's exports to Argentina is extremely detailed.
 One is certain that the establishment of a permanent
 Mixed Commission with its seat in Buenos Aires will
 be a success. It is the Commission's task to control
 observance of the agreement and the development of the
 goods traffic. In the agreement with Brazil the new
 method of balancing payments is most interesting be-
 cause it deviates from the usual scheme. The estab-
 lishment of annual accounts for the balancing is most
 remarkable. At the end of the year in which the agree-
 ment operates, the amounts will be balanced and re-
 placed by a new annual account for the following period
 of the agreement. It is equally remarkable for the
 regulation that a payment of a credit account will be
 demanded only to the extent in which import licenses
 actually were issued by the competent authorities after
 ordinary application procedures.

In the first months of the coming year further
 agreements with Brazil, Bulgaria, Denmark, Greece, the
 Netherlands, Norway, Pakistan, and Sweden are to be
 concluded. Existing agreements are to be renewed or
 prolonged.

457 The achievement of the balance of payments
 652 is the aim to which all endeavors of the economic
 policy must be subordinated. As explained in the fore-
 going, these endeavors contain those measures which are
 to restrict the inflationary development. The craft
 segment of the economy under the direction of the Bundes-
 kammer der gewerblichen Wirtschaft started various
 measures of material and psychological importance
 toward the end of 1951. Among these measures was price
 reduction (see Monatsberichte for November 1951 (No. 31):
 "Die ökonomische Bedeutung der Preissenkungsaktion").

The same aim is to be reached by an increase of the production with regard to quantities, by the balance between the production-goods and consumer-goods industries and by regard to necessities arising out of the export policy. In this connection, not only problems of an increase in productivity were discussed, but also fixed legally-based calculation principles (Eröffnungsbilanzen) were created which make it possible to strike an unassailable balance and to tax sham profits.

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F. Liquidation of Marshall Plan Aid and Future Planning.

The Marshall Plan is drawing to an end; it expires, according to the Foreign Aid Law of 1948, at the end of June 1953. That the American Marshall Plan administration, the ECA in Washington, has ceased functioning and the Mutual Security Administration started its activities as of January 1, 1952, do not alter the basic principles of Austria's economic policy (see Monatsberichte for January 1952: "Vom Marshallplan zum Mutual Security Agency").

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This is a fast-moving age in which we live. People almost forget that at the bottom of such a complicated program of procedures as the ERP allocations, of the releases from the counterpart funds, from the direct and indirect aid, from the drawing rights, and from the EPU, there was a relatively simple, but nonetheless, grand idea which aimed at the economic and social reconstruction of the war-torn European continent and the cooperation of the European countries in a free and comprehensive European market. Out of the 13 billion dollars supplied in the Reconstruction Program by the American taxpayer for Europe, Austria got 1 billion dollars for the purchase of bread and fodder grains, cotton, oil, and fats, for payment of overseas freight, for the extension and rationalization of its mining and industrial plants, for carrying out the enormous power-plants, for the reconstruction of its traffic network, and for its recreational and tourist traffic establishments. These dollar means, which were represented also in the counterpart accounts, served immediately or mediately in connection with aid deliveries to supplement investments and necessities in various enterprises.

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Observe the world your eyes can plainly see,
 How hill and dale and brook and meadow stand.
 The heights, though bare themselves, attract the clouds
 And send them down as rain into the vale.
 The wood holds off the wild, destructive storm.
 A spring does not bear fruit, yet nurtures fruits.
 And from such interchange of high and low,
 If fruit and shelter, comes an ordered whole
 That earns the right to live, because it is.

(Family Strife, Rudolf, Act III)

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1498. Vasco da
 Gama discovers
 the sea route to
 India.

1503 to 1521.
 The Pontifical
 Years of the two
 great Renaissance
 Popes, Julius II
 and Leo X. (Bramante, Michel-
 angelo and Raphael in Rome).

1517. Martin
 Luther posts his
 95 Theses at Wit-
 tenberg.

1517. The Span-
 ish Ferdinand
 Cortes sets out
 to conquer Mexico.

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The Burgundian marriage of Maximilian had brought the House of Hapsburg on to the stage of world politics. The marriage of his son Philipp and Johanna, daughter of Ferdinand of Aragon and Isabella of Castile, soon showed itself as the foundation on which this family was to build up a unique preponderance among world Powers. Through the death of the heiress, the Spanish Infanta, and a second, elder Spanish Princess, the children of Philipp and Johanna inherited United Spain together with Sicily and Naples, as well as the still uncharted territories overseas which embraced almost the whole continent of America.

A marriage celebrated in Vienna in 1515 between the grandchildren of Maximilian, Ferdinand and Maria, and Ludwig and Anna, children of the King of Bohemia and Hungary, proved of vital importance to the future of Austria. This act of political wisdom united the countries of the Danube basin at the moment when the Turks were preparing their advance into the heart of Europe. These lands were welded together, not by an act of dynastic caprice, but as the result of a real political necessity which at the same time involved a fundamental European interest. When the Jagellone, Ludwig, fell on the battlefield a few years later against the invading Turks and his brother-in-law, Ferdinand of Hapsburg, took over the inheritance, this developed into a third attempt to carry out the political organization of South-East-Europe. That which Ottocar had failed from Bohemia to achieve and which proved under the Hungarian Matthias Corvinus to be only a passing extension of power of no duration, now came about naturally from the foot of the Alps under the immediate pressure of danger from without, a Christian union of the peoples of South-East-Europe. It was the dazzling personality of the Emperor Maximilian which created these postulates for a glorious future, for conferring on the Hapsburgs a world position as rulers of an Empire on which the sun would never set, and for the creation of a super-national Danubian Empire. Aside from world politics, the arts

Aside from world politics, the arts

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and sciences found in this gifted ruler, himself a talented writer and thinker, an understanding patron. Albrecht Dürer and Peter Fischer enjoyed his favours and humanism found a home in Vienna.

The peasant walks behind his plough in peace,
While in the towns the workmen ply their trade;
And industries and guilds lift up their heads.

(Ottocar, Rudolf, Act III)

After the death of Maximilian, his grandchild Karl V took over a vast empire. He inherited Spain, Burgundy and the old Hapsburg possession; he was elected King in Germany and later crowned Emperor at Bologna. In 1521 he divided his Empire with his brother Ferdinand, to whom he gave the Austrian Duchies. From this time onwards one finds references to an Austrian and to a Spanish line of the House of Hapsburg. The reign of Karl V was filled with internal German conflicts arising out of the start of the reformation. Constant wars with France and Turkey left him no peace. Karl V was another of the strange, gloomy and apathetic figures to be found among the Hapsburg rulers. His plans to win back for the Imperial Crown its ancient power and splendour and to preserve the unity of the old Catholic faith were brought to naught, partly on account of the egotism of the Lutheran Princes but also because of their devotion to their faith. Karl thereupon renounced the crown and retired to the monastery of San Yuste in Spain. A lonesome and frustrated figure, he turned his back on that life which would have made him ruler of a world Empire.

There order dwells, there order has its home
While here confusion lives and vain caprice.

(Family Strife, Rudolf, Act I)

In the meantime Ferdinand was ruling prudently and ably in Austria. The new doctrines from Wittenberg quickly penetrated to Austria, where they spread rapidly. Soon appeared the first signs of a clash of beliefs which was to prove particularly significant for Austria. Efforts to bring about religious reforms brought with them social discontent, which manifested itself particularly in peasant revolts, and in the formation of the sect of the Baptists.

In 1526, Ludwig II, King of Hungary and Bohemia, lost the day and his life as well in the battle of Mohacs against the Turks. Under the Treaties

1519 to 1521.
The Portuguese
Ferdinand Magellan
first circum-
navigates the
world.

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1526. Bohemia
and Hungary pass
legally into the
possession of
Austria.

1528. Under
Henry VIII, the
first steps are
taken which led
up to the separa-
tion of the Eng-
lish Church from
Rome.

1538. Death of
Erasmus of Rot-
terdam.

1540. Foundation
of the order of
Jesuits.

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1545 to 1563.
Council of Trent.
The
Catholic
Church grows
more powerful and
the Counter-Re-
formation begins.

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²[i.e. the Emperor Maximilian.--Analyst]

642 coming from abroad, for Europe as a whole had not yet found peace. The shadows of great crises fell athwart the land in the middle twenties at a time when it enjoyed only a makeshift financial stability and consolidation. Now came the stagnation of world trade, and the birth of the dictatorships. The internal political events can only be partly understood if considered in conjunction with events in the outside world.

648 Austria is the barometer of Europe. Lying on the Rome-Berlin axis, partly surrounded by the semi-circle of the lands of the Little Entente, with eyes hopefully turned towards the peace policy of the League of Nations, this country found itself amidst ideological material forces which only too soon began to extend their activities beyond their own frontiers, until opposing policies in this small and tortured country put an end to civil peace. A factor to be remembered is that men without employment were marching in all the various armed formations—Schutzbund, Heimwehr and Storm Troopers. Despite lack of unity, Austria still found the strength to resist the aggression of the Third Reich until the invading troops of Hitler trampled—for the time being—Austria's freedom into the dust.

During the years of 1938 to 1945 there arose and spread through Austria a valuable quality, the will to tolerance and cooperation when the Motherland should at last be liberated.

April 11th, 1938. Schuschnigg orders disarmament of the Catholic militant formations.

May 6th, 1938. Compulsory military service in Austria.

June 11th, 1938. Germany recognizes by treaty the full sovereignty of Austria.

July 25th, 1938. Political armistice for the Nazis.

October 10th, 1938. Disbanding of all private armies. End of the Heimwehr.

June 18th, 1937. National-Political Section set up in the Vaterländische Front. Infiltration of the Vaterländische Front by Nazis.

September 25th to 29th, 1937. Mussolini visits Hitler in Germany.

February 6th, 1938. Hitler purges the German General Staff.

February 12th, 1938. Schuschnigg visits Hitler at Berchtesgaden.

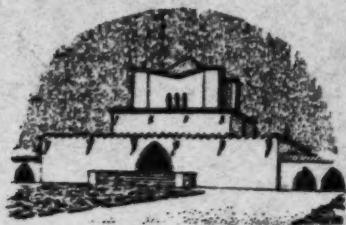
February 24th, 1938. Campaign speech of Schuschnigg to the Federal Council at Vienna. Final struggle for Austria.

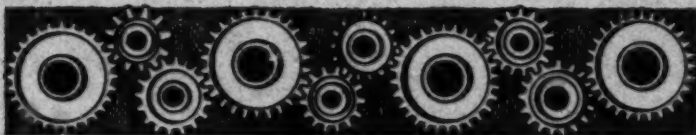
March 8th, 1938. Schuschnigg announces National Referendum.

March 11th, 1938. Ultimatum of the German Government. Fall of Schuschnigg.

March 12th, 1938. German troops invade Austria.

March 13th, 1938. Proclamation of the annexation of Austria by Germany.





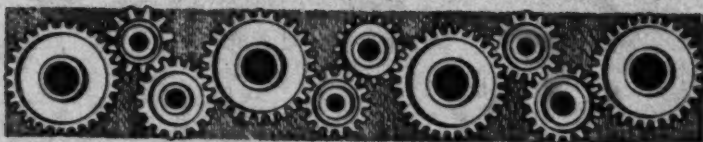
THE AUSTRIAN ECONOMY AFTER 1918.

439 The disintegration of the Dual Monarchy was immediately followed by severe economic disturbances. These were by no means small, even in comparison with the position after 1945. The heart of Austria, with its highly developed trade, was suddenly completely cut off from its former inland sources of raw products and markets. The oilfields of Galicia, like the important oil deposits in the lands of Bohemia, Moravia and Silesia, were lost, having fallen to the Succession States, and the loss of this agricultural surplus areas produced a threat of famine.

433 The Succession States—Czechoslovakia, Yugoslavia and Hungary—each attempted to build up a national economy, to balance its economic structure and to make itself as far as possible independent of raw and semi-manufactured materials and finished goods. A division of labour which had grown during decades into one complete organism was thus broken up, to the detriment of all peoples living within this territory. For Austria this meant that an intensive system of internal trading suddenly turned into one of foreign trade, where great difficulties had to be overcome. At first even inter-state transport communications were further complicated by barriers created by the Succession States.

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458 The nadir of those days was reached with the signing of the Treaty of Saint-Germain, which revealed the full extent of the catastrophe. Austria's tragic path at that time was blocked by a series of apparently insurmountable obstacles to the procuring of essential foodstuffs, coal and raw materials. Inflation to an extent never before seen set in and led to a selling-out of national assets. The unfavourable basis of the rump economic structure as well as the instability of Austria's relations with foreign countries seemed to doom all her efforts to failure.

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652 After difficult but very skilfully conducted inter-state negotiations, the governments of Czechoslovakia, France and Italy were persuaded to advance credits to the Austrian Republic. The Allied Powers convinced themselves that Austria, if help came from the League of Nations, would exert her own energies to the utmost in order to put her finances and trade on a sound footing. The will of the Austrian Government to stabilise the budget, demonstrated by the previous abolition of food subsidies (in December 1921), did much to assist these efforts. The Financial Recovery Plan which was signed at Geneva on October 4th, 1922, proved the turning



439 Trade stagnation lasted until the middle of the 1930s, when the armament
648 programme of the Axis Powers, Germany and Italy, was launched, to be followed gradually by an armaments race between all the world's most important trading countries. Austria was excluded from the development which led to the catastrophe of the Second World War, firstly through her political differences with the Third Reich (which answered by a cruel economic boycott in order to force Austria to her knees) and secondly on account of her economic structure, which was suited to the production of peace-time goods but not to that of armaments.

Austria had to make a tireless and purposeful search for new markets before she succeeded in forming and consolidating foreign trade connections with distant territories—the United States of America, British India, Japan, China and the Argentine. If this development had not been interrupted by the occupation of Austria in 1938, the results of Austria's successful attempts to revive her foreign trade would doubtless have soon been apparent in the growth of typically Austrian exports.

Even though the visible results of this change of direction may seem modest, it must not be overlooked that parallel with the deleterious results for Austria of the protectionist policies pursued abroad, there were serious internal problems of economic reconstruction to be solved. One of these was and still is the structure and the development of agriculture.

241 For many reasons unconnected with economics, but also in order to increase home
439 supplies of the chief articles of food, agricultural development was encouraged.
648 The most important changes in agricultural production were brought about, particularly in the years 1930 and 1931, by radical economic-political measures. The customs tariffs for these years showed a considerable increase of duties on grain, flour, sugar, cattle and meat, the protective tariffs being even further increased in the following years. The resulting rise in prices meant an increase of cultivated areas and the production of the most important kinds of grain.

231 A further far-reaching measure affecting cattle raising was the regulation of imports
439 of cattle and meat through the setting up of tariff barriers against the most important
648 of the neighbouring States. Apart from this, in April 1932 the import of the most widely sold types of cattle and cattle products was forbidden.

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 Apart from the necessity for the existence of agriculture, the chief problem is to find a reasonable compromise between the legitimate aims of agriculture and the need of Austrian trade and industry to export at competitive prices. This end can only be attained by the pursuit of a suitable economic policy and by an increase of agricultural productive capacity through measures of rationalisation, the discouragement of the drift to the towns and the setting up of a suitable system of administration.

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 The period between the two World Wars was too short to allow of full success on these lines, especially in view of the long duration of the world slump.

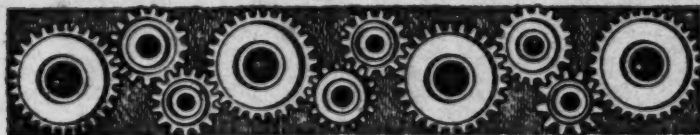
For the same reasons the efforts to develop the industrial-commercial system along new lines could not be brought to full fruition; attempts to maintain the status quo frequently held up progress. In times of international trade shrinkage any change of policy is not only exceptionally difficult but sometimes also a considerable risk.

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 In spite of this Austria made repeated attempts in the course of the years to develop plans for economic rapprochement with neighbouring States. These efforts, however, were doomed to failure through the existence of most-favoured nation clauses and political obstacles. Already in May 1931, conferences were being held in Rome concerning the possibility of increasing trade connections between Italy, Austria and Hungary. From this time onward the preference

THE BANKING SYSTEM IN AUSTRIA.

The structure and economic activities of the Austrian banks since their foundation round about the middle of the last century have followed a different course to that of the credit institutes of the West. For while industrial progress in the latter was based on the active participation of a large circle of interested persons and a well-organized capital market, the development of the far-flung territories of the old Austro-Hungarian Monarchy was left almost entirely to the initiative of the Vienna banks, at first in connection with mechanical transport, and later in connection with industry. Thus, in contrast to the Western type of pure deposit banks, they became universal banks with much more comprehensive functions. Apart from receiving deposits, they gave credit of all kinds ranging from discount credit to long term mortgage credit, dealt in shares and put through stock exchange deals as well as carrying on note emission and syndicate business.

The end of the Monarchy in the year 1918 made it necessary to adapt the Austrian banking system to new conditions. How close the connections of the Vienna banking institutions were with the territories of the old Empire which have since separated from Austria is shown by the fact that of the 127 branches of the Vienna banks which existed under the old Monarchy, not even 10 per cent fell to the new Austria and that, for instance, the Creditanstalt had 18, the Anglo-





bank 34 and the Wiener Bankverein 29 branches outside the territory of present-day Austria.

Adapting the Austrian credit system to the conditions and needs of the Austrian Republic actually took more than one and a half decades. It was not until the year 1896 that this process could be considered as completed with the fusion of the Creditanstalt and the Bankverein. The enormous difficulties involved were still further complicated by the fact that the change coincided in point of time with far-reaching international crisis of trade and finance, so that certain gross reactions on the Austrian economy were unavoidable. Notwithstanding this, the latter and its credit system proved themselves strong and vital enough to survive these troubled times and to prepare the ground for the favourable development of Austrian trade in general and the Austrian banking system in particular.

This development was broken off in abrupt and catastrophic fashion through the establishment of the National Socialist regime and the outbreak of the war which soon followed. Although the end of the war restored Austrian independence—in theory, at least—it left behind chaotic conditions—both figuratively and literally a heap of ruins.

In the realm of finance, the first attempts at reconstruction had to be directed towards the re-establishment of the means of payment, a solid national currency being of course a primary condition for the normal

system in foreign trade became the guiding principle, the narrowing down of inter-state trade relations being shortly afterwards still more strongly emphasized through currency restrictions and the clearing agreements connected herewith. The currency devaluations of the gold-standard countries towards the end of the year 1936 created new difficulties for Austrian foreign trade. As devaluation was out of the question and an export subsidy was not considered to be a suitable political-economic instrument, the only remaining alternative was to lower the costs of production. The difficulties of such a course have been proved by practical experience in all countries, as the questions of fixed prices and wages combine to form an insurmountable obstacle to such a development.

Nevertheless Austria still succeeded in linking up with the world boom which began in 1933—1936. In the year 1937 her figures of production were 6 per cent higher than those of the last characteristic boom year of 1929. The tourist trade developed exceptionally favourably, despite the "1000 mark limit" imposed by Germany, and the volume of foreign trade was constantly on the increase.

In view of the heavy burden of debt which the country had to assume after 1918, of the increasingly protectionist tendencies throughout the whole of Europe, especially among Austria's immediate neighbours and considering the severe and long-continued world trade depression, as well as the crises of international currency,

377 Occupation, construction in these years was of a thoroughly "wartime" standard. A characteristic example was furnished by the Gerlos Power Station.

In 1945 a resurrected Austria found a thoroughly disorganised power system with no system of compensating the difference between winter and summer power supplies or between river and mountain stations. There were only the beginnings of a purely Austrian cable system, for in the years 1936—1944, the existing 110,000 volt system was connected up to the power system of the German Reich. Development of the Austrian system now had to be directed to laying a main power conduit in a west-easterly direction which would run the entire length of the land. In the few years since the end of the war there has already been considerable progress in this direction. For the first time since the erection of the 110,000 volt cable over the Arlberg in 1947, the great Vorarlberg power stations are linked with the inner Austrian network. First the power stations of Tyrol were provisionally connected with the eastern provinces by a 110,000 volt line carried by wooden pylons over the Gerlos Pass. In April 1948, the first part of the future 220,000 volt main cable was put into use from the relay station of Ernstshofen to Pottenbrunn. The prolongation of the main cable to Kaprun and beyond is planned to take place at the same time as the extension of the Tauern Power Station, work having been started in the autumn of 1948. The future Austrian high tension network will not only provide a uniform and smoothly running system at home, but will also make possible a generous exchange of current with all neighbouring states.

Although man power was crippled at the end of the war and is still not properly organised, it was possible by 1948 to start construction in 60 different places. Austria, the richest land for water power in Central Europe, has so far only utilised one sixth of this treasure-store of nature.

• [647] Through the efforts of the United Nations Power Committee there is already close cooperation among the countries of Europe with a view to creating a pan-European power service. Owing to her enormous resources in water-power, Austria will be in a position to supply all the electric current still lacking in Europe, after the extensions of the present power stations have been completed and new stations constructed. Plans for exchange of current from Upper Italy to the Lower Rhine have been under consideration for years.

The Tyrolese and Vorarlberg sources of water power which have been developed or are worth developing, estimated together at about 11 milliard kilowatt hours yearly, are designed mainly for export. Water power east of the Gerlosplatt, on the other hand, will have to be used to cover inland demands. Austria most needs power in the eastern provinces, since her industries are mainly located in the Vienna and Linz districts. The principal power stations which have been designed for the supply of inland current are the Tauern Power Station of Kaprun, the Enns Power Work and the Danube Power Works of Ybbs-Persenbeug. After completion

with bread which he afterwards ate, such was the general mistrust and fear of poisoning. The tallman was long used at table: it was laid beneath glass or plate. 000

In the 15th century, Vienna cooking was considered to be among the best in Europe, and when the Viennese went to war, he took his best cooks to camp with him. The doughy Capuchin monk Abraham a Santa Clara more than once flew into a passion over Viennese gormandizing. He was not surprised, he said in one of his sermons, that house and farm were so often ruined because of the owner's overeating and that the noble soul was suppressed by the fat paunch.

DAYS OF SPLENDOR. Splendour and luxury reached their climax in Austria in Leopoldian times, under Karl VI, under Prince Eugene and during the days of the Vienna Congress. Table decoration was a special feature of every official banquet. Fantastic shapes in sugar-icing, arabesques, ornamentation and groups of merry figures were the fashion in the days of great court banquets. The arrangement of the dishes competed with the table decorations; roasted doves and chickens, for instance, would be grouped about a pelican made of baked bread.

In this decorative period, they went so far as to produce gilded sucking-pigs. Astonishing pastry ships were filled with fruits of marzipan: the latter are still popular today. At other times table fireworks competed with disguised foods and artistic creations such as statues, fountains and castles of edible materials. Many confectioners of the period were trained sculptors.

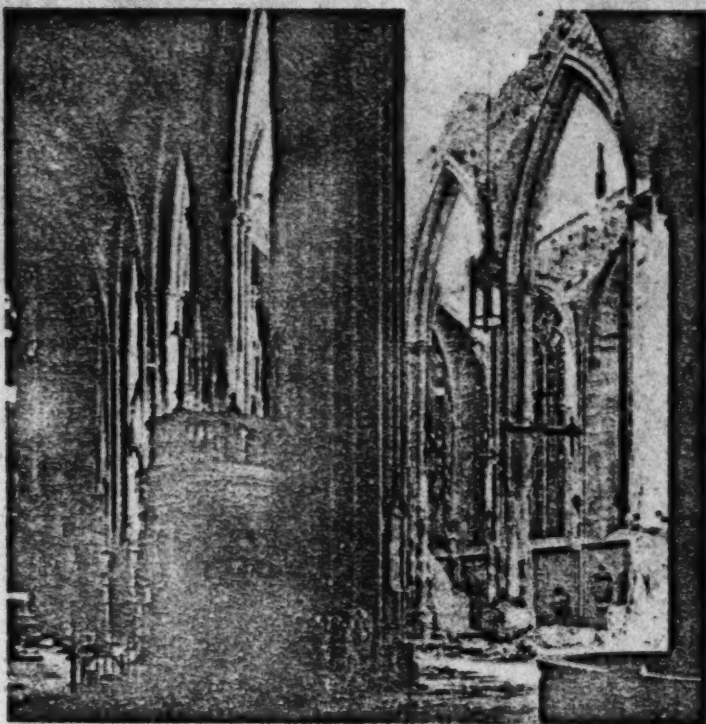
The most luxurious days for the city were those of the Vienna Congress. Entertainment at the Imperial Court cost 50,000 gulden a day. The wealthy Austrian aristocratic families gave banquets to as many as 700 guests at a time, one day in the week being reserved for such brilliant affairs. 648 574

The so-called table d'hôte was never a success in Vienna. To these "Landlord tables" a certain number of people came at a fixed hour in order to partake of a meal which was served to everyone simultaneously at a fixed price. He who could eat quickest with the smallest regard for others was at an advantage, but as the Viennese dislike haste at mealtimes, the tables d'hôte were little patronised. 265

Apart from the customary eating-houses, there were also what were called the "tracieurs". Here one could eat at any time between eleven a. m. and three p. m., lunch costing up to a gulden according to what was chosen. The customers were drawn from a wide range of social classes. The manager stood in the middle of the room like a major commanding his troops and gave his orders to the waiters. The eaters sat packed together like sardines, gulped down their food and were quickly replaced by others.

In biedermeier times the middle classes lived most of their lives at home in the bosom of the family, where they also entertained guests, and took little interest in appearing in public. For this reason their history is bound up with family tradition. Their way of life and customs inspired an art style which embodied and preserved 565 593

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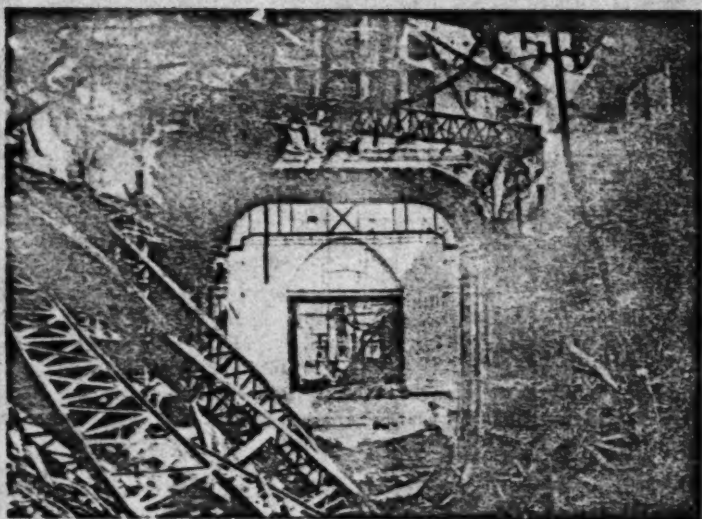


Vienna, the Stephansdom, April 1945.

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In those ominous days of March, 1938, when the armies of the Third Reich were crossing the Austrian frontier, a poster appeared on walls and the shuttered windows of shops, showing Hitler and Bismarck together. The former, of course, stood obtrusively in the foreground, while the Iron Chancellor was placed modestly behind as a forerunner who had long been overtaken.

Probably the designer of the poster had forgotten—if he ever heard of them—the words which Bismarck had spoken to Maurus Jokai in 1874: "Any German statesman who dreamed of conquering something in Austria would deserve hanging."



The State Opera, Vienna, March 12th, 1945.

Nevertheless, Austria was annexed, and the prophetic words of another statesman, Prince Talleyrand, became bloodstained history: "To destroy Austria would be to replace order by chaos." 648 ●

These words of the Frenchman, spoken of the great Austrian Empire, proved true enough as a political axiom applied to the small Republic. As long as Europe exists the peace of the Continent will stand or fall with Austria's independence as a State, whether the latter throws the weight of her own strength into the scale, or can only appeal to a higher law and the conscience of the world as she has done during the last decades.

When Austria was wiped off the map the great nocturne of heartless killing and soulless dying began. Hecatombs of victims have brought home unforgettably to the world what may result when the right and the liberty of the weak are trampled into the dust. Whoever instigated violence in Austria has always plunged the whole of Europe—this time it proved to be the entire world—into destruction as well. 726

The further development of man, according to a writer's pessimistic words—from

CHANCELLOR RAAB OF AUSTRIA

more than he takes part in the live-643
ly talk.

Ten years have passed since the 728
Allies, in a solemn Moscow declaration, proclaimed restoration of Austria's sovereign independence as one of their avowed war aims. Today Austria's position as a "liberated" victim of aggression is in many ways worse than that of the aggressor.

Chancellor Raab has taken the 643
activation of his country's foreign 648 ●
policy personally in hand. Reduced to essentials his argument comes to this: Austria is not yet free only because the Allies fell out among themselves, and that is certainly not Austria's fault. After 99% agreement, the state treaty is being held up only as a Russian cold-war tactic (though, he remarked, "the cold war in Europe has never been quite ice-cold in Austria"). But why not withdraw, meanwhile, the occupation armies? Democratic Austria has proved that it can fully maintain law and order by itself, and there would still be the Allied high commissioners in Vienna to watch—no foreign armies are necessary for that.

Since last summer, relations with the Russians have greatly improved, though nobody can say whether as a reversal from Stalin policy or merely as political tactics. All the same, the belated Russian concessions do not go as far yet as those made much earlier by the Western powers. The chancellor has reacted

643 to them with the attitude that one
648 should meet an outstretched hand
with good will: "there is no sense
in pulling the Bear's tail."

In that atmosphere, he presses
Austria's many remaining com-
plaints and aims. With a shrewd
appreciation of possible Soviet
touchiness at losing face, he bases
his reasoning on the argument that
it could not be interpreted as a Rus-
sian weakness if they give a civil-
ized, democratic and orderly nation
that full sovereignty which they
solemnly promised.

643 Chancellor Raab stands firmly on
the side of the West. He realizes
the need of continued close col-
laboration with the U.S. He is a
firm believer in a free economy.
His economic platform is that of
a firm currency and of stabilized
price and wage levels; of creating

SECRET

INTRODUCTION

be able to lead a healthy economic life. These are doubts 433 which have persisted down to the present day, in spite of twenty years of an independent Austrian economy.

At first sight, it seems rather strange that Austria should be singled out in this way. Why is the same question never raised with regard to other small nations in Europe or South America? For Austria is in many ways far better placed than many other countries. She possesses a considerable variety of important natural resources; far more, for instance, than her wealthy western neighbour, Switzerland. There are almost unlimited sources of water-power; there is a wealth of timber, iron ore, and oil; the population contains a high proportion of skilled workers in a large number of industries; and Austria is situated at the junction of a number of major European trade routes. Thus we find that Austria is better off than any of the other eastern and south-eastern European countries, about whose viability there has been no question whatever.

Nevertheless, it is not difficult to discover why Austria was singled out for this kind of discussion. The end of the last war saw the break-up of the Habsburg Empire and the birth of a number of new national states. Now, while each of these states was faced with problems arising from the new economic set-up, Austria, above all others, was regarded as the mutilated remnant of the old Monarchy. This country, with its 6½ million inhabitants, formerly a metropolitan province of a 50 million empire and closely integrated into its economic life, had now to adjust itself to a completely new economic and political environment. Would the new Austria, impoverished by war and inflation, be able to accomplish this task smoothly and within a reasonable space of time?

As we shall see later, Austria managed, after some 648 difficult and troublesome years, to tackle this problem and

AUSTRIA'S ECONOMIC DEVELOPMENT

•648 to stand on her own feet. But the doubts about Austria's viability were not silenced. On the contrary; they were raised with increasing insistence in at least one quarter: amongst the Pan-Germans in Germany and in Austria. To-day, we see more clearly, perhaps, than ever before how the arguments against Austria's economic independence were used to further Germany's imperialist designs, both before and after Hitler's access to power in Germany.

It was not without effect. The constant repetition of the same argument weakened Austria's power of political and economic recuperation and progress.

121 Nor, as we have seen, has this propaganda failed to make headway elsewhere. The doubts of 1920 still linger on. If, in the following pages, we tell the story of Austria's economic development in her twenty years of independent existence, this is not only to show what has been achieved, and what lessons need to be drawn from the experiences and mistakes of the past, but also to destroy finally the myth of Austria's "inability to live".

727 At present, there are naturally many initial difficulties
433 to overcome before Austria will become prosperous and economically healthy. These difficulties, however, are simply consequences of a process of looting in the course of seven years during which Austria was harnessed to the German war economy, and of heavy destruction wrought during the last phase of the war. Disruption of transport and traffic, acute shortage of food and other essentials, temporary isolation from the outside world—these are consequences of war which Austria shares with all states of Europe which had been under German rule. It is absolutely clear that without large supplies of food and fuel Europe as a whole will barely be able to live through the first years of peace. Thus, in Austria, too, all available

READJUSTMENT AND CONSOLIDATION

Unfortunately, the tariff policy of the new Danubian states which should have offered the natural market for Austria's and Czechoslovakia's highly developed industrial capacity was by no means conducive to a high level of trade. In their very justifiable desire to industrialize their neglected and backward economies, these new governments increasingly adopted a policy of economic nationalism. They put up more and more insurmountable tariff walls which in the end harmed all the countries within the area and outside it and only benefited a few sectional interests.

Austria tried to meet this problem by increasingly directing her exports (and different types of exports) to other parts of the world. The following figures clearly illustrate this tendency:

DISTRIBUTION OF AUSTRIA'S EXPORTS IN 1922 AND 1924

To:	1922 %	1924 %
The Danube States *	42.1	36.8
Northern Central Europe †	23.9	23.0
Western Europe ‡	23.0	25.9
All other countries	11.0	14.3

* Czechoslovakia, Hungary, Yugoslavia, Roumania.

† Germany and Poland.

‡ United Kingdom, Belgium, Netherlands, France, Switzerland, Italy.

Attempts were also made to conclude special trade agreements. Negotiations for a preferential trade régime with Czechoslovakia in 1925 were wrecked on the rock of Italy's and Germany's objections. Germany even threatened trade reprisals. Austria also tried to stimulate trade by pursuing a very liberal tariff policy. While, by 1927,

AUSTRIA'S ECONOMIC DEVELOPMENT

439 was no exception and it is in this field that particularly
652 grave mistakes were made in the period under review.

As early as 1931, when Austria was still a democracy, a
• 648 dangerous and harmful attempt was made in the inter-
439 national field to solve the growing economic difficulties.
Dr. Schober, a member of the small Pan-German group
in Parliament and Foreign Minister in the Coalition
Government of the day, entered into secret negotiations
with Dr. Curtius, the German Foreign Minister. On
March 19th, 1931, the world was suddenly informed of
the intention of the two governments to form a customs
union. The plan found instant and wholehearted support
in Germany. In Austria there was no enthusiasm about
it outside the ranks of the Pan-Germans, and many
Austrian industrialists were gravely disturbed by the
prospect of falling completely under German control.
But it was mainly in France and Czechoslovakia that the
full implications of this Pan-German move were imme-
diately grasped. Only a few days after the scheme was
announced, on March 26th, Dr. Beneš, the Foreign
Minister of Czechoslovakia, explained to the members of
the Foreign Affairs Committee that the customs union
project raised the question of the *Anschluss* indirectly as
a customs union between unequal parties was certain to
destroy the independence of the weaker.

457 Fortunately the project did not materialize. The
648 growing financial difficulties of Austria and the need for
foreign help, which Germany was neither able nor willing
to provide, induced the Austrian Government to give
up the plan for a customs union. A few days later, on
September 5th, the Permanent Court of International
Justice decided by a narrow majority—eight votes to seven
—that a customs union would be incompatible with
Austria's obligations under the Geneva Protocols.

RECOVERY

Thus Austrian independence and European peace alike were given another breathing space. But the active part which Austrian politicians had played in this German attempt towards central European hegemony could not but harm Austria's economic relations with some of her neighbours. Suspicion about German designs in Austria grew. Czechoslovakia, in particular, turned away from Austria. Trade relations with that country were of paramount importance to Austria for both political and economic reasons. It was all the more regrettable that Czechoslovakia moved from second place on the list of Austria's foreign trade partners to fourth: between 1929 and 1937 imports from Czechoslovakia declined from 18 per cent of total imports to 11 per cent, while Czechoslovakia's share in Austrian exports fell from 14 per cent to 7 per cent. 648
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With Hitler's rise to power, Germany's expansionist desires became naked and unashamed. It was no longer a question of a customs union; the outright annexation of Austria by Germany was put on the agenda. In these uneasy years between 1933 and 1937 Austria managed fairly successfully to escape the monopolistic domination which Germany imposed on most of the Balkan countries by commercial means. Though Germany continued to head the list of Austria's imports and exports, it never obtained a dominant position. In fact, its influence actually declined slightly during these years. Between 1929 and 1937, Germany's share in Austria's exports declined from 16 per cent to 15 per cent while imports from Germany fell from 21 per cent to 16 per cent of the total.

Austria did not, however, escape the indirect effects of Germany's trade offensive. Germany's policy of monopolizing Balkan trade through bilateral agreements, bulk

[A. category 116, 73 p. 77 - ANALYST]

AUSTRIA'S ECONOMIC DEVELOPMENT

648 purchases, accumulation of debt, etc., was, first, designed
439 to gear the economic structure of these countries to the
needs of the German war economy. But it also served
to close the traditional export outlets of Austria and
Czechoslovakia, and so to weaken their economies.

PERCENTAGE SHARE OF GERMANY, AUSTRIA, AND CZECHOSLOVAKIA IN THE FOREIGN TRADE OF THE SOUTH-EAST EUROPEAN AGRICULTURAL COUNTRIES (BULGARIA, GREECE, ROUMANIA, TURKEY, HUNGARY, YUGOSLAVIA)

	Imports		Exports	
	1928	1938	1928	1938
Germany	17	35	16	34
Austria	11	5	16	7
Czechoslovakia	14	7	8	6

Alternative outlets had to be found. Austria should have obviously tried to expand her trade with the Western democracies, with the Soviet Union, and with America and the Dominions. This would have created closer ties with the countries on whose active assistance Austria's security ultimately depended. And it would have enabled Austria to obtain in payment for its exports free exchange which could have been spent in the most advantageous markets. Austria's light and fashion trades offered every opportunity for expanding and diversifying her export markets in this way.¹⁰ But Austria's fatal foreign policy in the years from 1933 to 1938 was matched by an equally disastrous foreign trade policy. The new authoritarian régime failed to establish close and friendly relations with democratic Czechoslovakia and with the other peace-loving powers. It pinned its hopes for security on the

RECOVERY

promises of Fascist Italy,* and, in 1934 signed the Rome Protocols. This was an agreement signed by Italy, Austria and Hungary providing for a preferential trade régime for these countries. Hungary was to find improved outlets for her agricultural exports while Austria and Italy would obtain preferential treatment for their industrial products. Behind all this, however, loomed Italy's attempt to obtain a dominant position in central Europe. 648 • 439

The economic results of the Rome Protocols were anything but satisfactory as far as Austria was concerned. There was no great expansion of trade with Hungary. Exports to Italy increased quickly, it is true, particularly after the outbreak of the Abyssinian war and the imposition of sanctions in which Austria failed to join. Italy moved from fourth to second place on Austria's export list. In 1936, 14 per cent of Austria's exports went to Italy, as compared with 10 per cent (out of a much smaller total) in 1932. But Italy was neither able nor particularly willing to pay for these exports. Austria's export surplus to Italy amounted to no less than 70 million schillings in 1936 and 93 million schillings in 1937. Thus Austria, herself in sore need of capital investment in her industry, was compelled to make loans to Italy. The same applied to a slighter extent to Germany, where the clearing agreement also led to the accumulation of a credit balance in Austria's favour.¹¹ 457 • 439

It was not until 1936, when Italy's incapacity to pay became obvious and when the Italian Government tried to change the terms of the agreement in its favour, that an effort was made to re-direct Austria's trade. A preferential treaty was concluded with Czechoslovakia, in spite of severe opposition from Germany. Other attempts for

* Instead of helping Austria, Mussolini, in the event, congratulated Hitler on his successful annexation of the country.

CHAPTER VI

THE SHADOW OF GERMANY

ECONOMIC PENETRATION

AFTER the annexation of 11th March, 1938, Austria's economy became completely subordinated to Germany's war requirements and to the German preparations for a "New Order" in Europe. But it must not be assumed that Austria's economy had ever been able to develop freely and without interference from its powerful neighbour. Indeed, to understand fully the economic and political events in Austria the long-standing and baneful German influence must be constantly borne in mind. 648 • 457

Long before the last war German imperialism exerted a powerful influence on Austria's economic policy. After the creation of the German Reich in 1870 German industry grew at a rapid pace and Germany became the leading economic power in Europe. She soon took third place, after Britain and France, as a foreign investor. After a short period of all round lending in response to purely economic incentives, the loan policy of the German banks and industrial concerns was increasingly brought into line with wider political aims.¹ The *Drang nach dem Osten*, a prime feature in Germany's expansionist designs since the days of Bismark, came to determine the direction of her capital export. Large sums were invested in the Near East, in the Balkans and particularly in the Austro-Hungarian Empire. German investments in the Empire totalled RM. 3,000 million in 1913, more than the value of British and French investments taken together. There

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648 was also much direct participation in the Empire's industry
457 and banking.

In those days free economic relations were still the rule. But Germany's lending policy was quickly used to help carve out political and economic spheres of influence. Loans were frequently granted only on condition that their proceeds should be spent on German products. By this means, the big German concerns obtained a dominant influence in these areas and trade was often diverted from its natural channels. Not less than 40 per cent of Austro-Hungary's foreign trade thus came to depend on Germany. The economic penetration of the Monarchy contributed greatly to its conversion into a junior partner in Germany's foreign policy and into a willing tool in the First World War.

As a result of that war Germany lost most of her foreign investments and eventually became herself largely dependent on foreign capital. Consequently, she was no longer of any importance as a source of capital supply for Austria and in foreign trade, too, she lost her predominant position, accounting for no more than about one-sixth of Austria's foreign trade.

But Germany did not therefore abandon her attempts at economic penetration in Austria. If anything, her efforts in that direction were greatly increased to compensate at least in part for the areas and opportunities lost in the war. The aim remained the same, though the methods were changed.

648 While Germany ceased to make loans to Austria she
471 continued to maintain a close grip through her shares in Austrian companies. The total amount of these holdings was moderate but they were of major strategic significance. German concerns had managed to obtain full or partial control over important firms in most of Austria's

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key industries. German capital was conspicuous in the spheres of banking and insurance, the iron and steel industry, heavy and electrical engineering, the chemical industry, textiles, hydro-electric works, and in the film industry. In many cases, of course, German capital opened up new opportunities, with benefits to all concerned. But more often German control resulted in the complete subordination of the policy of the Austrian firm to the interests of the German parent concern or to the political aims of the German expansionists. 648 471

In the electrical engineering industry, for instance, which was dominated by the German controlled Oesterreichische Siemens Schuckert Werke A.G., Siemens-Halske A.G., and the A.E.G.—Union Elektrizitaets-Gesellschaft, the goodwill which Austrian industry possessed in south-eastern Europe was exploited by using the Austrian establishments for exports to these areas. But the development work was invariably carried out in Germany. Austrian research workers and technicians were sent to the Berlin laboratories, and Austrian shareholders deprived of their dividends in order to strengthen the financial reserves of the parent concern. Accordingly, the Austrian establishments became increasingly dependent on German patents and finance while Austria's social and economic requirements were completely neglected. 648 393 471

Many similar examples could be given from other industries. One case, which deserves special mention is that of the biggest single Austrian combine, the Alpine Montan A.G. The Alpine owned all the important iron mines in Styria and Carinthia, all Austrian blast furnaces, a great number of steel works in southern Austria, lignite and magnesite deposits and railways. It controlled the bulk of Austria's metallurgical resources. 648 471 327

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648 The Alpine had been the offspring of a merger of many
327 small companies in the days of the Monarchy. After the
471 war the majority of shares was acquired by the Govern-
ment, but in 1919—during the most critical period—they
were sold to a group of Italian financiers. From there, in
1921, they passed into the hands of the notorious German
inflation profiteer, Hugo Stinnes. When his meteoric rise
came to a sudden end the majority of shares (56 per cent)
were acquired, in 1926, by a member of the German Steel
Cartel, the Vereinigte Stahlwerke of Duesseldorf, a com-
bine headed by the Nazi promoter Fritz Thyssen.

469 From then on this most important combine in Austria's
heavy industry was run exclusively in the interests of
the German Steel Trust. All the important positions and
research facilities were reserved for adherents of "Pan-
German" convictions. The workers were forced to leave
their free trade unions and to join the *Heimwehr*, an
armed, anti-democratic body, whose Styrian branch was
heavily subsidized by the Alpine Montan. As early as
1931, the Styrian *Heimwehr* organized an unsuccessful
coup d'état against the Austrian Government. A number
of directors of the Alpine Montan were behind this *putsch*.
They were again involved, and actually arrested for a
short time, when the Nazis made an abortive *putsch* in
July, 1934, in the course of which Chancellor Dollfuss
was murdered.

648 On the outbreak of the great economic depression the
327 German steel magnates decided to concentrate production
457 in Germany. All Austrian blast furnaces were closed down
and the industrial districts of Styria were thus converted
into one of the worst-depressed areas in Europe. After
Hitler's rise to power, the Alpine was completely har-
nessed to the German armament programme, regardless
of Austria's political or economic needs. In 1937, when

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Austria was in great need of "free currency", the Alpine refused orders from England and other countries, and sent its whole output to Germany, in spite of the clearing debts which had accumulated there. Ultimately the behaviour of the directors became so hard to distinguish from high treason that the Austrian Government put a Government Commissioner in charge of the firm. But it was too late. A few weeks later the policy which the directors of the Alpine had backed all along was fulfilled—Austria was occupied by Germany. 698 327 459

Direct ownership and control were not the only means by which the Germans exerted their influence in the economic affairs of Austria. Recent investigations by the American Anti-Trust Division have shown how, over a long period, German combines used international cartels in order to increase Germany's economic war potential. If powerful monopolistic concerns in Britain and the United States could be induced to act against the interests of their own nation it is clear that the Germans had much easier play as far as Austria was concerned. 648 471 477 1

Cartelization was a widespread feature of Austria's industrial structure. The wide ramifications of industrial investments of the major banks greatly smoothed the way for trade agreements, mergers, etc. Many of these cartels worked in close agreement with their German counterparts. Owing to their much greater financial strength the German firms had the decisive say in directing cartel policy. In their desire for high and safe profits the Austrian cartel members not only damaged consumers through their restrictionist policies; they also betrayed the economic and political interests of their country in favour of Germany.

These direct economic influences were supplemented by other, more subtle, methods. From the day of the

AUSTRIA'S ECONOMIC DEVELOPMENT

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668 establishment of the Austrian republic onwards, German circles and their Pan-German friends in Austria conducted a propaganda drive against the country's independence, mainly on the argument that it "could not live". Diplomatic pressure was also used to prevent close economic co-operation between Austria and the Danubian states. Finally, there was the abortive attempt to establish a customs union in 1931.

On Hitler's rise to power the political and economic pressure on Austria was greatly intensified. Germany's trade drive in south-eastern Europe, for instance, was not only directed towards the economic and political domination of that area but also served to deprive Austria and Czechoslovakia of their natural export markets. There were also a number of direct attempts at injuring Austria's economy, among which the "Tausend Mark Sperre" was an important example. In 1933, a tax of RM. 1,000 was levied on every German wishing to go to Austria. This move was to deprive Austria of an important source of income and to spread discontent among certain sections of the population. Actually, the attack failed completely as the absence of the German tourists was more than made good by the huge increase in visitors from other countries. *X

There were many other "subversive" economic activities designed to undermine Austria's independence and power of resistance to the Nazis. Austrian films, which largely depended on the German market, could be exported there only if they were produced in conformity with German racial legislation. Authors could get their books published in Germany only if they held pro-Nazi views. German-controlled firms in Austria employed salesmen whose job it was to spread Nazi propaganda in addition to selling their goods. In short, the economic

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Fifth Column was a powerful weapon in Germany's arsenal for her attack on Austria's independence.

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AFTER THE ANNEXATION

The economic implications of the occupation of Austria were as little appreciated at the time as its political and strategic significance. In fact, Germany's war potential was greatly strengthened as a result. Austria's iron ore, magnesite, timber, electric power, etc., afforded valuable relief to Germany's war industry which was beginning to run short of raw materials. Austria also provided a source of skilled manpower which could be harnessed to the growing efforts of the German war economy.

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Moreover, the gold and foreign exchange reserves found in the Austrian National Bank were of great immediate importance in helping Germany to build up emergency stocks for the coming war. Heavily indebted to her clearing partners, Germany had found it increasingly difficult to obtain foreign exchange for even the most essential raw material imports. The gold reserve of the Reichsbank had fallen to the extremely low level of RM. 76 million. They were now able to lay their hands on a gold reserve of more than 420 million schillings, or roughly RM. 200 million. Moreover, Austria had at that time some 200 million schillings of clearing balances to her credit (mainly from Germany and south-eastern Europe). Thus Germany was, at one stroke, rid of the problem of paying Austria and was able, with the help of Austria's claims, to settle her long-standing debts in the Balkans.

Finally, the occupation of Austria enabled Germany to outflank Czechoslovakia's strategic defences, and opened the road towards the east. The economic encirclement of eastern Europe was also complete. The Balkan countries had become dangerously dependent on trade with

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728 Germany which had swallowed up one of their important customers and suppliers—Austria had up till then occupied the third or fourth place in the foreign trade of most of these countries. Politically and economically Germany had become the complete master of the whole area.

471 For Austria, of course, the occupation meant far more than a dangerous shift in Europe's economic balance. Her economy ceased to exist as a separate entity; within a very short time it was completely absorbed into Germany's war economy and her "New Order".¹⁴

The Germans were able at once to lay their hands on all Austrian State property. The railways were incorporated into the German railway system, the State forests taken over by the German State. The State monopoly in salt was given to the Deutsche Bank, and the tobacco monopoly taken over by a private German company. Far more important, however, were the shares of the Credit-Anstalt which were owned, at that time, by the Austrian Government. After the reorganization of the Credit-Anstalt in 1931, 49 per cent of its shares were taken over by the Government. These, together with some others, were now transferred to the Deutsche Bank. Since at the same time the only other important bank, the Zentraleuropäische Länderbank, came under the control of the Dresdner Bank, practically the whole of Austria's banking and insurance business had passed into German hands.

471 It must be borne in mind, in this connection, that the Central-European banks held a key position in the industrial life of their countries. It has been estimated that the Credit-Anstalt controlled almost 90 per cent of Austria's industry and agriculture. Moreover, the Austrian banks and financial institutions still possessed considerable investments in the Balkan countries, particu-

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larly in banking, and in the textile, chemical, and food-processing industries. All these controlling positions now passed into the hands of the German banks. Vienna became Germany's launching ramp for south-eastern Europe, and Austrian economic quislings greatly helped the Germans to advance their economic penetration of the Balkans.

But the indirect control of Austrian industry through the banking system was only a first step. Within a very short space of time all the more important Austrian firms passed either partly or wholly into German hands. This was achieved either by methods of outright robbery, as in the case of "aryanization" (the confiscation of Jewish property), or by exploiting the financial difficulties in which many firms had been landed as a result of the occupation and incorporation of Austria; or through a skilful handling of the financial control which had been gained in the first instance. In this way all important industrial enterprises were absorbed into the big German combines like the I.G.-Farben, Krupp, Henschel, Vereinigte Industrie-A.G., and particularly the Hermann-Goering Works, which acquired the control of the largest part of Austria's heavy and allied industries. Altogether, it has been estimated, a share capital of about 380 to 400 million schillings (of industrial, commercial, and banking firms) passed into German hands. This compares with a sum of about 710 million schillings which was the total value of all shares admitted for quotation on the Vienna Stock Exchange in August, 1938.

While the big Austrian firms were being subjected to German control a process of decline took place among the smaller firms. Many small business men were ruined by the policies of rationalization, concentration, and above all by the extension of war production at the cost of the

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471 typically Austrian high-quality consumer goods industries. Between 1938 and 1942, the number of business enterprises in Austria declined from about 21,300 to 16,300, while the corresponding number in Germany increased from 337,000 to 353,000 over the same period.

• 648 The changes were less spectacular in agriculture. But
423 many of the large estates belonging to the Church and the
167 monasteries as well as State-owned land came into German
728 ownership. Farmers who were in difficulties were not
assisted but bought out and German "hereditary farmers"
(*Erbhofbauern*) were settled in Austria. At the same time
the sons of Austrian peasants were sent to Poland, Russia,
and even to Bohemia and Moravia in order to "colonize"
these areas. However, the changes in property relations
were of less importance in the sphere of agriculture than
the extreme regimentation of production and the system
of forced deliveries which reduced the peasants to a state
of serfdom.

128 It is too early as yet to give an exact picture of the effects
471 of seven years of German domination on Austria's econ-
omy. Some major results are, however, clearly discernible.

648 First, it is clear that the Germans completely changed
433 the economic structure of Austria. Austria's economy
was wholly adapted to suit the needs of the German war
machine. And since Austria, like Czechoslovakia, was for
a long time the safest place from air attack in Hitler's
Festung Europa it became one of the most important
centres for the production of armaments. Heavy industry
was greatly expanded. In Linz alone the Hermann
Goering concern erected 320 coke ovens and 6 blast
furnaces. In 1943, it was estimated that about 25 per cent
of Germany's war industries had been concentrated in
Austria.

On the other hand, many of the specifically Austrian

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industries producing high-quality goods such as electrical equipment, precision instruments, food products, leather goods, arts and crafts, the fashion industry, etc., were either completely ruined by the dearth of raw materials or they lost their identity by being absorbed into some German concern. Many smaller firms with a high reputation had to close down, and their carefully built up personnel was drawn into the army or into the armament industries. A considerable effort will be required to restore these enterprises which are of great importance for Austria's exports, particularly in her trade with Britain and the United States. 728 471 433 648

In agriculture, too, the many promising developments before 1938 were brought to an end and production was devoted to the sole purpose of yielding as great a surplus for Germany as possible. In particular, the output of vegetables, staple foods and industrial crops was greatly stepped up.

While Austria's economic structure has been altered, total production was greatly increased. Between 1938 and 1944 steel output, for instance, was doubled; the production of aluminium rose from about 4,000 to 72,000 tons, and the generation of electricity increased from 2½ million kW.h. to almost 10 million kW.h.

The upward trend in war industries was accompanied by considerable shifts in the location of industry. In particular, the Linz-Wels-Steyr area in Austria was greatly expanded and converted into a huge centre of heavy industry. Motor roads and inland shipping facilities were also greatly extended.

These increases were achieved through a considerable reduction in the output of the consumer goods industries, by neglecting the replacement of worn-out machinery, by moving German capital equipment and German and

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648 foreign labour to Austria,¹⁰ and also by making much
728 fuller use of Austria's resources than ever before. Indeed,
433 the organization of a war economy has revealed the
471 potential wealth of Austria—as of other countries—
showing what could be achieved in peace time if only
proper use were made of existing opportunities.

The increase in production, however, was also achieved
by eating deeply into Austria's resources. In many cases
it will take years before the damage can be repaired, if
indeed it can be repaired at all. In the case of timber, for
instance (an extremely important export commodity in
Austria), a reckless policy of exploitation has undone
many years' work of careful afforestation. The intensive
cultivation of the soil and the lack of artificial fertilizers
and of animal feeding-stuffs has had the most damaging
effects on agriculture. Up to the middle of 1942 harvests
and herds of livestock were maintained at the pre-war
level; but the position has greatly deteriorated since then.
1943, in particular, was a bad year and large numbers of
livestock had to be slaughtered.

The increase in the output of oil in Zistersdorf from
about 30,000 tons in 1937 to something like 1 million tons
(which is considerably more than Austria's total peace-
time requirements) may, it is feared, have dangerously
exhausted these valuable resources. Similarly, the rate
of exploitation of the iron ore deposits reached an un-
desirably high level.¹¹

727 Our provisional economic balance sheet would not be
complete without remembering the tragic destruction of
manpower: the thousands of Austrians killed in Hitler's
war and the many brave men and women done to death in
concentration camps and at the hands of the executioner.

1 [CATEGORY 116, P. 92 — ANALYST]

CHAPTER VII

FUTURE PROSPECTS

AUSTRIA is to-day faced with economic problems similar to those of the other liberated countries of Europe. The damage caused by air-raids, fighting, sabotage, and destruction by the Germans will have to be repaired. Large arrears of repair and replacement in building and capital equipment will have to be made good, while the transition from a war economy to peace production is presenting formidable problems of its own. 727

The damage which Austria's economy suffered in seven years of German occupation and six years of war is, of course, very considerable. Nevertheless, the chances for recovery and a relatively short transition period are in many ways better now than they were in 1918. First, the lightning speed with which the Red Army descended on Vienna and the important industrial districts surrounding it, have allowed Austria and Vienna to escape the disastrous destruction experienced by Budapest, Warsaw, and many German towns. Secondly, Austria is not, this time, faced with the tremendous task of changing the economic structure of the metropolitan province of a great empire into that of a small, independent state. There is now no overgrown state apparatus and no heavy burden of pensions on that score. Thirdly, there are new opportunities for firm bonds of friendship between Austria and her neighbours, Czechoslovakia and Yugoslavia, and also with the other nations in south-eastern Europe, and there is every promise of fruitful economic co-operation between them. 648.

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- 648 The suspicions of 1918 against Austria as the centre of Habsburg power has given way to a feeling of common interest after the common experience of German oppression. Fourthly, the destruction of Germany's political and economic power will, for the first time, allow Austria to re-build and develop her economy freely and without the defeatist and destructive interference of German business and its Pan-German friends in Austria. Last but not least, Austria's prospects of recuperation are better than in 1918 because Austrians themselves have changed. The experience of twenty years—not very easy ones, to be sure—of an independent Austria and of the subsequent catastrophe of seven years of German occupation have cured them of such *Anschluss* ideas as they may have had. They are firmly determined to have their own independent country and to maintain its independence. A healthy and constructive Austrian nationalism has developed in place of the defeatism and lack of confidence of the inter-war period. The active part which many Austrians took in the liberation of their country, and the speed with which Austrians of all parties came together and formed a Provisional Government of national unity is a hopeful sign for the future. Austrians have started to learn to take their fate into their own hands and not to rely solely on foreign help for their salvation. This change of outlook, if it can be preserved and fostered, cannot but greatly assist the reconstruction of the country.

600 In spite of the extreme seriousness of the present position, then, the outlook for the transition period is quite hopeful. In the first stages a certain degree of foreign help for relief and rehabilitation is, of course, absolutely essential. But if it is given speedily, without the delays and political interference which were such an unfavourable feature of the Hoover Mission in 1919, and